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COMMERCE

M A G A Z I N E

JULY, 1949

25 CENTS



Gulf Oil Corp.

ols of the micro-chemist: here in Lilliputian miniature is a complete "refining plant within a laboratory"

"It's Micro-Magic"—See Page 16

**CHICAGO
BELTING
ANNOUNCES**

NEW LOWER PRICES ON LEATHER BELTING

EFFECTIVE June 15, 1949 we reduced prices on all grades of Leather Belting including our two top brands, RELIANCE and SEALION Belting.

For three generations these belts now made by the Tension-Welded Process have won a world-wide reputation for high quality, expert workmanship and EXTRA long life. It will pay all users of leather belting to investigate the many advantages and money-saving features of these famous brands of Leather Belting.

Our new lower schedule of prices will be mailed you upon request. We invite your inquiries—no obligation.

**BE SURE TO WRITE OR PHONE TODAY
FOR NEW SCHEDULE OF PRICES.**



Modern Tension-Welded CHICAGO LEATHER BELTING delivers maximum power at load peaks and longer continuous operations with fewer shut-downs.

For unexcelled full-friction pulley grip, operating stamina and machine performance insist on Chicago Belting.

Phone MO-nroe 6-5050 and talk it over with one of Sales Engineers. We can help solve your transmission belting problems.

CHICAGO BELTING COMPANY

MANUFACTURERS OF LEATHER BELTING AND LEATHER PACKING

GREEN & WASHINGTON STREETS, CHICAGO

THE USE OF *GAS* IN BUSINESS

NO. 9 OF A SERIES

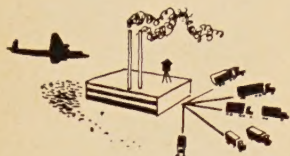


View of all gas-fired kitchen featuring modern stainless steel cooking equipment at Riccardo's Studio Restaurant, 437 N. Rush St., Chicago, Ill.

RICCARDO'S Studio Restaurant, located on Chicago's near North Side, is well-known from coast to coast for its excellent Italian cuisine and Bohemian atmosphere. It is the favorite meeting place of famous artists, distinguished authors and columnists, as well as celebrated stars of stage and screen.

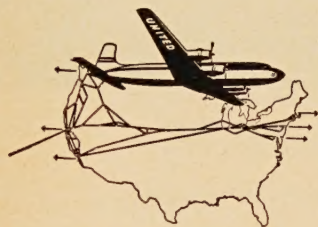
Gas is used exclusively in the preparation of all food, including broiling, baking, roasting, deep fat frying, and boiling. Over a period of many years, Riccardo's has found gas to be the ideal fuel for all cooking needs in catering to the varied tastes of such an exacting clientele.

KEEP PRODUCTION MOVING



...avoid costly, time-consuming interruptions. Get parts and supplies when you need them

by using UNITED AIR FREIGHT!



United offers an unequalled domestic route and extensive interline connections, enabling you to ship from nearly anywhere to major marketing areas all over the world.

United's 4-Engine, 9-ton-capacity Cargolliners speed your shipments coast to coast overnight; serve the cities you sell in with fast, frequent schedules. United passenger planes carry freight, too.

United World Air Cargo makes shipping overseas fast, easy and inexpensive.

United's low rates allow you to sell more, save more, with United Air Freight. Call your United office or write:

UNITED AIR LINES

Cargo Sales Division, 5959 S. Cicero Ave., Chicago 38, Illinois.

STATISTICS OF CHICAGO BUSINESS

	May, 1949	April, 1949	May, 1948
Building permits	557	568	663
Cost	\$10,012,600	\$19,707,100	\$10,091,100
Contracts awarded on building projects,			
Cook Co.	956	1,517	1,157
Cost	\$25,138,000	\$45,317,000	\$39,442,000
(E. W. Dodge Corp.)			
Real estate transfers	5,346	5,119	6,233
Consideration	\$5,091,546	\$3,793,927	\$6,344,346
Retailers' Occupation Tax Collection,			
Cook Co.	\$7,880,186	\$7,577,570	\$7,627,664
Department store sales index	226.7 ¹	224.6	237.5
(Federal Reserve Board)			
(Daily average 1935-39=100)			
Bank clearings	\$2,879,308,884	\$2,949,752,171	\$3,182,932,789
Bank debits to individual accounts:			
7th Federal Reserve District	\$14,973,000,000	\$15,021,375,000	\$14,788,000,000
Chicago only	\$7,852,551,000	\$7,757,830,000	\$7,686,858,000
Chicago Stock Exchange transactions:			
Number of shares traded	498,000	554,505	972,000
Market value of shares traded	\$12,852,024	\$12,985,758	\$25,224,834
Railway express shipments, Chicago area	1,227,782	1,255,195	1,500,966
Air express shipments, Chicago area	43,402	37,673	56,584
L.C.L. merchandise cars	23,167	24,802	28,052
Originating local telephone messages	173,894,695	173,821,840	175,288,735
Electric power production, kwh.	936,670,000	959,645,000	915,211,000
Revenue passengers carried by Chicago			
Transit Authority lines:			
Surface Division	62,960,707	63,211,540	71,005,401
Rapid Transit Division	13,759,837	14,138,070	14,764,482
Postal receipts	\$8,846,827	\$9,667,544	\$8,161,112
Air passengers:			
Arrivals	131,846	118,534	106,524
Departures	135,514	120,254	108,502
Consumers' Price Index (1935-1939=100)	174.2	175.0	174.9
Live stock slaughtered under federal			
inspection	439,608	467,637	456,839
Families on relief rolls:			
Cook County	24,624	24,261	20,309
Other Illinois counties	18,353	19,391	15,255

¹—Preliminary figures.

AUGUST, 1949, TAX CALENDAR

Date Due	Tax	Returnable to
1	Franchise Tax becomes delinquent and penalties of one per cent per month begin to accrue	Secretary of State
15	Employers who withheld more than \$100 during previous month pay amount withheld to	Authorized Depository
15	Illinois Retailers' Occupation Tax return and payment for month of July	Director of Revenue
31	Federal Excise Tax return and payment due for July, 1949	Collector of Internal Revenue

COMMERCE

M A G A Z I N E

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JULY, 1949

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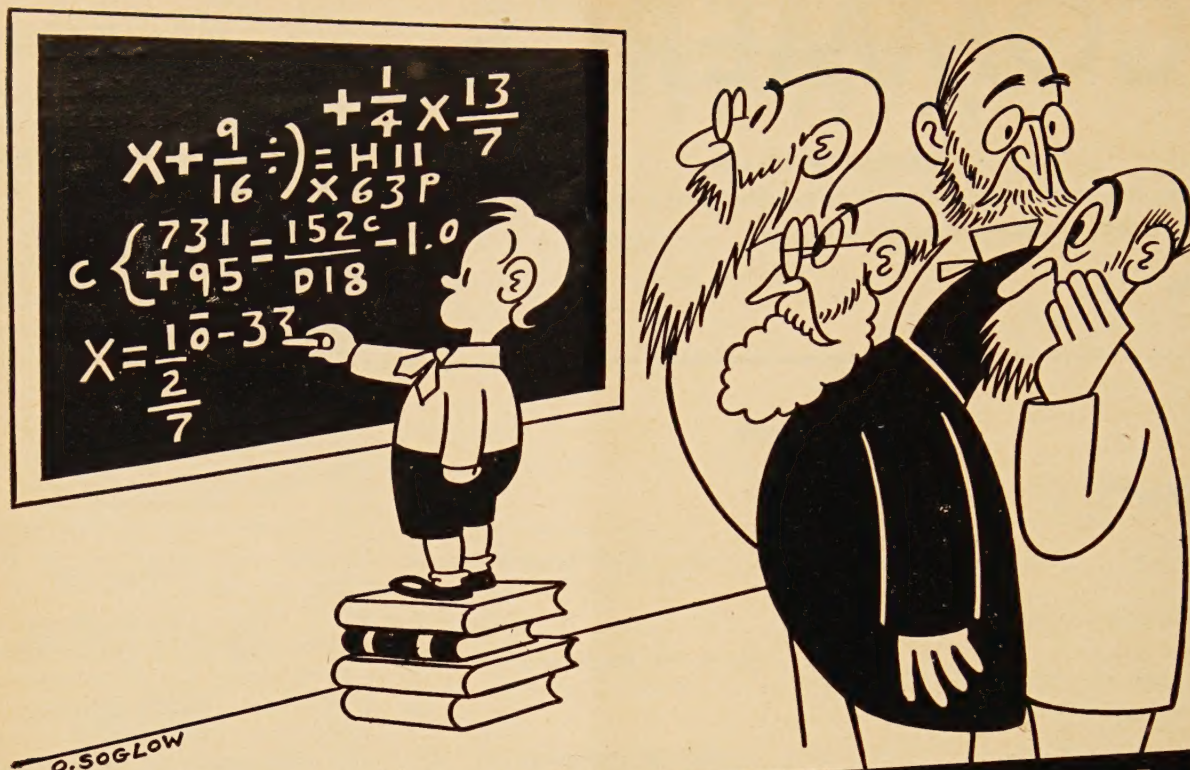
In and out of the headlines for many month has been the bitter rift between Communist and anti-Communist forces in the CIO. At last, reports Sid A. Levy, Washington labor correspondent for the Journals of Commerce of New York and Chicago, the prolonged battle is nearing a climax that will take place next November. The outcome, predicts Mr. Levy, will be the expulsion of eleven pro-Communist internationals. "Exit the Red Fringe?" begins on page 13.

A fascinating new field of science, called microchemistry, is speeding research work in dozens of industrial fields. One of the big advantages of microchemistry is that the field worker can often carry a whole laboratory in his handbag. The reason is that his tools are almost as microscopic as the substances he is studying. Georg Mann tells the story, beginning on page 16.

Direct mail is an extremely potent advertising medium, but as A. M. Anderson, of the Reuben H. Donnelley Corporation, points out on page 15, direct mail campaigns often go wrong because they are mishandled. Mr. Anderson goes on to explain "What's Wrong With Direct Mail?"

Taxes, thankfully, are headed down. So reports Joseph Slevin who finds that Congressional sentiment is strongly against Mr. Truman's persistent campaign for still higher personal and corporation levies. How soon Congress will begin cutting taxes is another matter, probably sometime before Congress leaves to face the polls next year. The best bet now is that business taxes — particularly those that have been reportedly cutting sales volume — will be reduced. Story begins on page 19.

One of the most critical problems facing industry today is the shortage of equity capital. This month COMMERCE presents the views of three distinguished business leaders, who undertake to explain (1) why equity capital is scarce, and (2) what industry can do to solve this urgent problem. The three-article roundtable begins on page 20.



You'll be surprised at these figures!

- 80 million Americans own \$48 billion of U. S. Savings Bonds.
- 20,000 of the nation's 38,000 firms employing 100 or more persons are operating Payroll Savings Plans.
- 7,500,000 workers are buying an individual average of \$20 of Bonds per month.
- For the year 1948, sales of Series E Bonds exceeded redemptions by \$495,148,000. The net figure for all Series after redemptions and maturities was \$2,151,140,000.

What does all this mean to you? Well, it means first of all that your Treasury Department is successful in its program of increasing the nation's economic security by spreading the national debt. Secondly it means that most of the nation's business leaders recognize the value of the Payroll Savings Plan sufficiently to promote it within their companies.

For example...

To give you some idea of the Plan's growing popularity: 86,384 employees of a prominent electrical manufacturing company were investing in Bonds at the rate of \$30,005,270 as of the end of 1948. This is a gain of nearly 100% over 1947, when 45,000 employees participated in that company. The treasurer of a well-known shoe company reported that, of his concern's 19,060 employees, 9,240 were in the Plan and had invested \$146,807.32 in Bonds via deductions during the preceding month.

Why promote it?

We all know how buying Bonds builds an individual's future security. But there are *company* benefits too! Nation-wide experience shows that Payroll Savings increases each participating employee's peace of mind—makes him a more contented, more productive worker. It reduces absenteeism, lowers accident rates, increases output, and improves employee-employer relations.

It's easy to boost participation

1. See that a top management man sponsors the Plan.
2. Secure the help of the employee organizations in promoting it.
3. Adequately use posters and leaflets and run stories and editorials in company publications to inform employees of the Plan's benefits to them.
4. Make a person-to-person canvass, once a year, to sign up participants.

These first four steps should win you 40-60% participation. Normal employee turnover necessitates one more step:

5. Urge each new employee, at the time he is hired, to sign up.

Nation-wide experience indicates that 50% of your employees can be persuaded to join—without high-pressure selling. All the help you need is available from your State Director, U. S. Treasury Department, Savings Bond Division.

The Treasury Department acknowledges with appreciation the publication of this message by

COMMERCE MAGAZINE



This is an official U. S. Treasury advertisement prepared under the auspices of the Treasury Department and The Advertising Council.

The Editor's Page

■ The Melody Is The Same

THE persistence with which the planners pursue their aim of government intervention is probably one of the important reasons for their steady progress.

An outstanding example is the case of the plan to get legislation under which the government would be authorized to build new plants or make loans for that purpose in industries that were deemed to be bottlenecking the whole economy. The steel industry, it will be recalled, was the one specifically mentioned. Proponents said that to combat inflation by increasing production greater capacity was needed than private capital was willing to provide.

While the inflation lasted that argument had a certain element of specious appeal. But when deflation set in, it was not long before the Spence bill, which was to be the enabling legislation was classed as dead, even by its author.

But not the idea. Direct investment by government is now being advanced as a way to fight deflation. This time it is being proposed as the way to make jobs in the capital goods industries when private capital is too timid to pay for expansion. It is a very safe prediction that enabling legislation will be introduced if the deflation continues too long.

■ Confusion Compounded

THE riddle of what comprises lawful competition and what is in violation of the antitrust laws is becoming more, rather than less, complicated. The latest development to add to the existing state of confusion is the Supreme Court decision in the antitrust case against the Standard Oil Company of California.

Following a common trade practice the oil company had contracts with some 6,000 dealers in its territory to handle its gasoline, oil, batteries, tires and accessories exclusively. These dealers represented approximately 16 per cent of the outlets and did less than 7 per cent of the volume of business in the territory.

By a five to four decision the court held against the company and ruled that such contracts are illegal if their effect "may be to substantially lessen competition or tend to create a monopoly." The majority of five took the position that it was irrelevant that the company did not dominate the market, that competition may actually have been intensified by existence of the contracts, and that the contracts may have been beneficial to the dealers.

Standard Oil was not even permitted to offer evidence to demonstrate that the contracts had no illegal effect on competition. It was sufficient for the majority that such contracts "may" injure competition. How wide the difference of opinion is within the court as to the decision, and the narrow basis on which the majority ruled, is indicated by the dissenting views

expressed by justices Jackson and Douglas. Justice Jackson contended that the contracts might have been expressed by Justices Jackson and Douglas. Justice Douglas, recognizing the possibility that the company might buy its dealers or make agency contracts with them, contended that the majority decision may actually threaten the existence of independent dealers.

Whatever its merits may be, this new decision promises to rank with the basing point decisions in upsetting long established business practices and relationships. Exclusive dealer contracts are used in a number of industries, including automobiles, home appliances, building materials and farm equipment.

The fact is that courts and the Federal Trade Commission are so divided and have so confused the question of what is legal and what is not under the antitrust laws that no business man can know with certainty whether he is acting lawfully or not. To further complicate the situation a businessman today must be sure that while he is trying to compete so as to satisfy the Sherman and Clayton Acts he does not run afoul of the Robinson-Patnam Act prohibition against "price discrimination."

The muddle has reached a point where clarifying legislation by Congress is urgently needed. Without such clarification, determining what is monopolistic, what is fair competition and which is discrimination must remain guesswork.

■ Future Bright?

IN THE midst of the recent bearish performance of the stock market the magazine FINANCIAL WORLD offered an interesting study of past market declines.

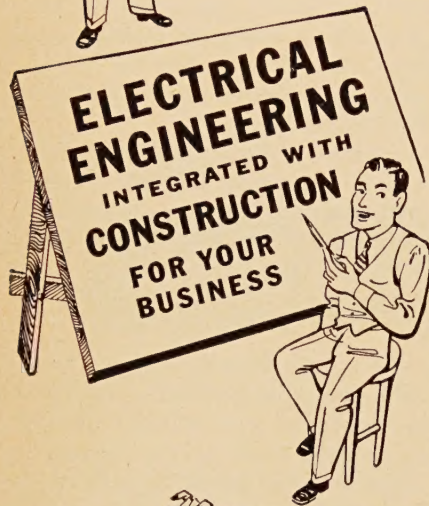
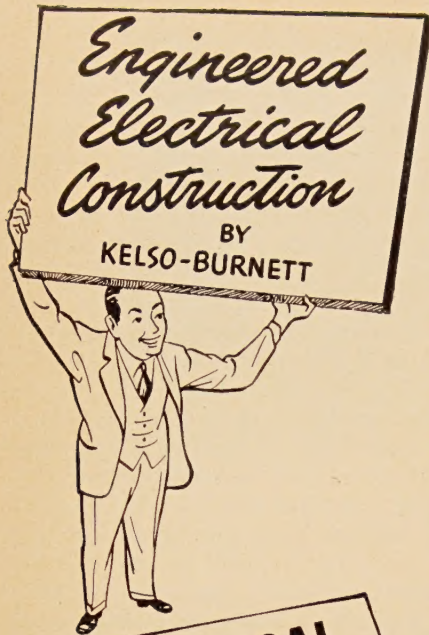
According to this analysis none of the market declines of the last 50-years have lasted as long as the present one, which started on May 29, 1946. Others have carried farther but even the never-to-be-forgotten bear market starting in 1929 lasted only from September 3 of that year to July 8, 1932, a matter of 34-months compared with the 37-months the present drop has been in progress.

The break after World War I began on November 3, 1919, lasted to August 24, 1921, and was followed by a second bearish swing from October 14, 1922 to July 31, 1923. After that date the bulls had things well in hand until the fateful Fall of 1929.

Compared with the present bear market, however, 11 of the 12 that have been experienced since the one that started on April 4, 1899 have produced a greater percentage drop in prices than the current decline has thus far. The Daddy of them all, of course was the 1929-1932 toboggan which cut prices 89 per cent. Next in dimension was the 1937-38 break, which slimmed prices down 49 per cent.

There is undeniable interest in such data and FINANCIAL WORLD is to be thanked for assembling them. If only history didn't seem to have so much trouble repeating itself these days without going to bigger and better extremes!

Alan Sturdy



• You gain many advantages . . . ONE RESPONSIBILITY, ONE RELIABLE FIRM — to handle modernizations, conversions, new construction from design through engineering to completed construction. We work with your engineering firm, general contractors — or direct. Write us today.

KELSO-BURNETT ELECTRIC COMPANY

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JACKSON
BLVD.



CHICAGO 6,
ILLINOIS

HERE-THERE and EVERYWHERE

• **Youngsters, Aged Increase** — Market analysts have been telling businessmen to concentrate more and more upon selling both the younger and older ends of our population; the reason being that youngsters and oldsters are increasing in number more rapidly than the in-between age group. Preliminary census figures, just released in Washington, confirm the unofficial forecasts. In a total population of about 146,571,000 on July 1, 1948, there were about 15,106,000 children under five (an all-time peak), and about 10,950,000 persons 65 and older (another record). In 1940, there were 10,542,000 youngsters under five, and 8,964,000 persons 65 and over.

• **Rolling Sales Promotion** — The Miller Motor Company, a Chicago manufacturer of air and hydraulic cylinders, has taken a leaf from the itinerant medicine man's book by placing on the road a travelling exhibit that is visiting plants and factories throughout the country this year. The mobile unit consists of an outsize trailer, containing living accommodations as well as a demonstration area where visitors learn how cylinder damage can be prevented through proper care and also, of course, how Miller cylinders are the best buy. The travelling exhibit will visit plants from New England to California.

• **Superman At The Board Table** — It's just possible that by now youngsters of Marquette Cement Manufacturing Company employees are nosing through the firm's latest financial statement — at least, a boiled-down, sugar-coated version of the report. Last month, Marquette sent a comic-book version of the annual statement to the homes of all employees, wherein three characters — Tom, Dick and

Harry, The Marquette Team — tussle with ordinarily complex corporation matters as if they were no more difficult than Monday morning quarterbacking. One feature of the four color comic book is an assets-liabilities statement reduced to terms of a "one-man cement company" — an idea that any youngster might well grasp.

• **U. S. Tanker Strength** — America's privately-owned, ocean-going tanker fleet is now at the greatest strength in its history and includes 474 vessels or about 41 per cent of the world tankship tonnage. In addition, of the 72 sea-going vessels now on order in U. S. shipyards, 61 are oil tankers. Of these 54 are 26,000 deadweight tons or over.

• **Golden Anniversary** — July is an appropriate month to reflect upon the fact that the household refrigerator is just 50 years old this year, although the Rube Goldberg contraption that was called a household refrigerating machine and thus gained the first United States patent a half century ago bears slight resemblance to the devices of today. The subsequent growth of the industry is reflected in last year's total output of some 4,530,000 refrigerators of all makes.

• **A Free Hose, Maybe?** — Producers of the new Lustron home, the first metal pre-fab, have thought of a new angle to promote sales. Since the interior walls of the Lustron are of porcelain-enamel steel and the floors are of asphalt tile, occupants can clear out the furniture and clean their homes by simply using the garden hose.

• **Selective Street Lighting** — New Milford, Conn., is installing what is probably the world's first auto-

matic street lighting system; each streetlight is individually turned on and off by an electronic eye which detects light changes caused by nightfall, thunderstorms or fog. The system was developed by General Electric engineers in collaboration with the Connecticut Light and Power Company, and is so sensitive that street lights turn on one after another westward along a street as darkness falls. According to GE, the system has high safety value since it helps avoid twilight darkness, one of the biggest causes of street accidents.

• **Silent Salesman Boom** — The automatic vending machine business continues to grow by leaps and bounds as more and more goods become available through the robot merchandizers. SKF Industries, Inc., which makes anti-friction bearings for the complicated mechanisms, notes that there are no less than 3,000,000 automatic venders throughout the country and the number is growing. Goods and services dispensed run all the way from freshly-cooked frankfurters to life insurance (more particularly, travel-type life insurance automatically vended in railroad, airline and bus stations).

• **The Job's The Thing** — Those war emergency taxes on such consumer items as cosmetics, luggage, alcoholic beverages and movie admissions are strongly opposed by organized labor, if a poll conducted by Schenley Industries, Inc., at the Union Industries Show reflects union sentiment. More than 90 per cent of labor union members casting "tax ballots" in the poll voted for immediate reduction of the emergency excise levies. Their reason was that the taxes now threaten job security among union members working in these industries. (For a discussion of the tax outlook see the article beginning on page 19).

• **Untapped Oil Riches** — The Armour Research Foundation of Illinois Institute of Technology declares that oil fields which have been yielding petroleum for years may still have as much oil underground as has been taken out. The

(Continued on page 38)

"Why WESTERN FELT?"

I'll Tell You Why..."



It's resilient—prevents the transmission of destructive vibration to delicate machinery by absorbing the shock.

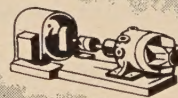


It's versatile—is widely used as gaskets, pads, washers, weatherstripping, thermacoustic insulation... in smallest precision instruments to massive engines.



It's firm—neither loses its shape nor frays... can be cut to tolerances measured by thousandths of an inch.

Right! And don't forget to mention that Western Felt has 47 years of experience in the design and manufacture of superior felt shapes—that Western engineers are anxious to help you solve any problem involving the possible use of felt. Write "Western" today.



It's long-lived—incorporates flexibility, compressibility, and resistance to water, age, heat, oil, alcohol, sound.

Acadia Synthetic Products Division,
WESTERN FELT WORKS,
Processors of
Synthetic Rubbers—Sheets, Extrusions, Molded Parts.



WESTERN FELT WORKS

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LARGEST INDEPENDENT MANUFACTURERS AND CUTTERS OF WOOL, HAIR, AND JUTE FELTS

*You are paying
the price . . .*

ARE YOU GETTING YOUR MONEY'S WORTH

in

INSURANCE COUNSELLING

RISK ANALYSIS

**LOSS PREVENTION
ENGINEERING**

VALUATION STUDIES

**COST AND
STATISTICAL DATA**

?

The dollars you spend for insurance entitle you to all these services as well as protection. Our industrial clients find our Service Staff of engineering and analytical experts of inestimable value to them in solving their insurance problems.

If you are interested in getting more service and better protection out of your insurance dollars, a letter or telephone call will give you an opportunity to become better acquainted with our plan of Insurance for Industry.

BYRNES McCaffrey, Inc.

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•
WEbster 9-7713

•
IN DETROIT, MICHIGAN—
Ford Bldg. Phone Woodward 2-0200



**Machine Tool
Industry Seen
Leveling Off**

The machine tool industry, which spent most of 1948 in an uncomfortable slide-off, appears to have halted its long downward trend. L. D. McDonald, president of the National Machine Tool Builders' Association, reports that machine tool production has now leveled off at about 10 per cent below last year's average output and so far this year orders are substantially above the last quarter of 1948.

The industry spokesman, who is also vice president of Warner and Swasey Company of Cleveland, also points out that machine tool orders in March of this year totaled \$27,650,000 as compared to \$19,950,000 in October, 1948, the month in which the industry hit the bottom of the slump. Why the pickup? Says Mr. McDonald:

"With the prices of manufactured goods declining while wages remain firm and there is no prospect of tax relief, more and more manufacturers are realizing that in spite of reluctance to make expenditures at this period, the purchase of new machine tools is imperative as a means of immediate reduction in manufacturing costs. As evidence of this, the industry has a greater volume of inquiries than at any time since the war."

« « » »
**Competition
Brings Boost
In Ad Budgets**

With competition becoming steadily keener in almost all lines of business, advertising and sales promotion budgets are being stepped up noticeably by a cross-section of U. S. concerns recently surveyed by the National Industrial Conference Board. The survey shows that a large percentage of 190 companies polled

Trends in **FINANCE and BUSINESS**

are taking more or less drastic steps to perk up their promotional programs. Some are expanding markets, some are reopening sales offices shut down during the war, some are shifting sales territories and revising sales compensation schedules, and a few are taking all these steps simultaneously.

As for advertising expenditures, the vast majority of firms are holding budgets at or above the level of 1948, and about one third are boosting them, some as much as 50 per cent over last year. Here are several specific steps being taken by the firms surveyed:

Many are shifting their emphasis from "institutional" to "product" advertising. Most firms are increasing sales forces, partly to accommodate larger sales territories and partly to intensify selling in existing territories. The majority are also developing more comprehensive and hard-hitting sales training courses.

Among advertising media being given greater attention by many of the reporting firms are: (1) direct mail, especially by capital goods industries; (2) television, especially by some of the larger business firms; (3) local dealer advertising, aimed at building public confidence in dealer organizations; and (4) industrial convention exhibits.

« « » »

**Accident Toll
Hit New Low
Record In '48**

Industry's long and persistent drive for safety on the job continues to pay off in increasingly favorable accident records. Figures just released by the National Safety Council reveal that 1948 was what the council calls a "banner safety year" for both big and little industry. The accident frequency rate for all industries submitting company reports to the

Council, based on the number of disabling injuries per 1,000,000 man-hours, was 11.49 in 1948, a reduction of 13 per cent from the year before.

A breakdown of the figures, which, of course, are somewhat less dramatic than the actual lives and limbs they represent shows these facts: the communications industry was again at the head of the safety list with an accident frequency rate of only 2.60 (13 per cent below 1947), and the aircraft manufacturing industry ranked second with a rate of 4.56 (down 36 per cent from 1947).

On the other end of the list was the lumbering industry with a frequency rate of 49.04, but encouragingly this too represented an 18 per cent drop from 1947. Coal mining, which ranked next to the bottom of the frequency list in 1947, ended 1948 in the same position with a rate of 46.09, a 15 per cent reduction.

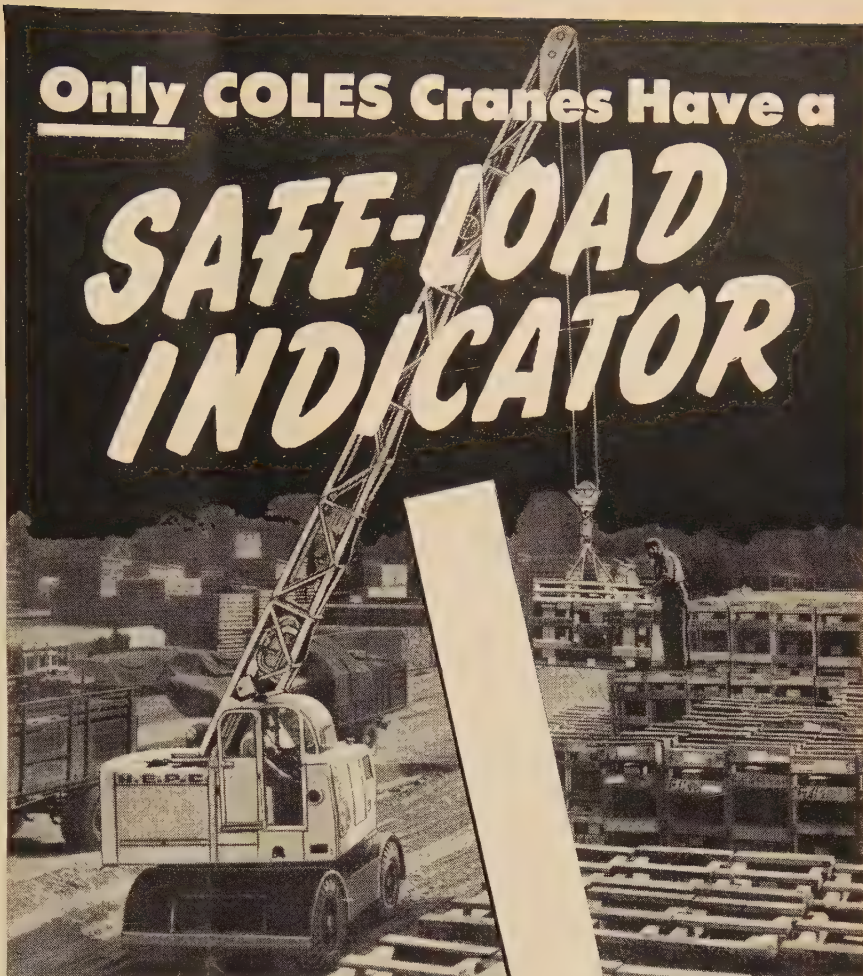
« « » »

It took the Federal government some little time and a host of box-car figures to discover what Chicago businessmen have suspected right along: Cook County, Illinois, is the fastest-growing industrial community in the nation. The Census Bureau last month served up the first batch of statistics collected in the current census of manufacturing and it showed that of 127 counties having more than 20,000 manufacturing employees Cook County added more manufacturing strength than any others between 1939 and 1947. The statisticians figure growth in terms of what they call "value added to materials by manufacture" and in this category, Cook hit the top of the list with a 1947 total of \$4,544,300,000, which was 30 per cent greater than the "value added by manufacture" in New York County, N. Y. (runner-up). It also reflected greater growth than that experienced by 43 of the 48 states.

Cook County's total in 1947 was an increase of more than 200 per cent over 1939. Its wage earning population in that year was 47 per cent greater than second-place New York County. With 774,000 manu-

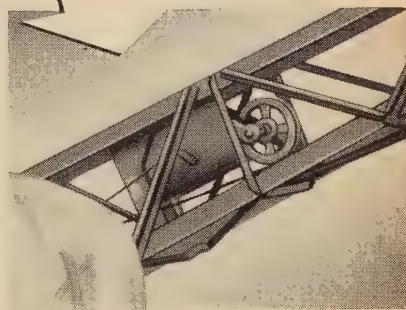
(Continued on page 43)

Only COLES Cranes Have a SAFE-LOAD INDICATOR



**Plus—One Man Control
Patented Reversible Steering
Low Maintenance Cost!**

Coles "Safe-load" indicator provides all around protection to operator as well as to expensive equipment. The unobstructed view from operators cab at front of superstructure furnishes complete visibility, "ONE-MAN" trigger-quick control to all four motions: Hoisting, Swinging, Derricking, Traveling. The four simple controls can be worked simultaneously. Coles Cranes' rugged "battleship" construction gives long-life service at lowest maintenance cost—combined with fool-proof operation. Ease of maneuverability, including the Cole patented reversible steering are just a few of the many advantages of the Cole Mobile Crane. "Know-How" gained from 70 years Crane manufacturing experience. Plus ... world wide distribution has made COLES Cranes a leader. Available in several models in capacities 1½ ton to 15 ton. Write us for prices, literature or the name of your nearest dealer. COLES CRANES, Inc., 4314 S. Paulina Street, Chicago 9, Illinois.



The Safe-Load Indicator

COLES "Safe-load" indicator prevents operator from lifting any loads in excess of rated load at any given point of radius. A warning light directs attention immediately to an overload. Current is cut-off automatically if operation is continued.





Acme

Some leftwingers want to eject the Reds in advance of the planned purge as did transportation workers' boss Mike Quill (right)

Eleven CIO leftwing unions face ejection in November

Exit The Red Fringe?

By Sid A. Levy

IF A cartoonist were casting about for a symbol to illustrate the violent right-left wing battle now moving toward a climax in the CIO, he would not go wrong in selecting a grindstone upon which a huge meat cleaver was being honed in anticipation of a November event, other than Thanksgiving. Rightwing CIO leaders have been sharpening their big cleaver with increasing gusto ever since the war. Now, at last, they believe it is keen enough for the amputation job intended: the final expulsion of the CIO's eleven-union leftwing bloc at next November's annual convention in Cleveland.

The unions marked for ejection, more or less by their own choice, include the Electrical Workers; Mine, Mill and Smelter Workers; Farm Equipment Workers; Food, Tobacco and Agriculture Workers; Fur and Leather Workers; United Furniture Workers; the Longshoremen and Warehousemen; Marine Cooks and Stewards; Fishermen and Allied Workers; Office and Professional Workers; and the Public Workers. Led either by recognized Communists or fellow-travelers, these organizations together represent roughly 600,000, or 10 per cent, of the CIO's total membership. That was the last count, at any rate; their strength already is ebbing away.

The approaching excision of the CIO's Communist fringe has been in the making a long time and in the eyes of most Americans is already long overdue. When it comes, it will climax a shouting, hair-pulling, skull-cracking fracas that has swirled through the CIO's ranks for almost half a decade. "Now," says one of CIO President Phil

Murray's top lieutenants, "The die is cast!"

The rightwing November strategy is already worked out in some detail. Since the Communist unions apparently have no intention of leaving the CIO voluntarily, a set of expulsion resolutions is to be laid before the convention by the executive board, which meets at Cleveland late in October. Thereafter, the procedure planned is simple: the CIO constitution says expulsion resolutions take effect upon two-thirds approval by the convention. As of the moment, rightwingers from Murray down are confident of that margin; by November, they expect to be even stronger.

Communist Strategy

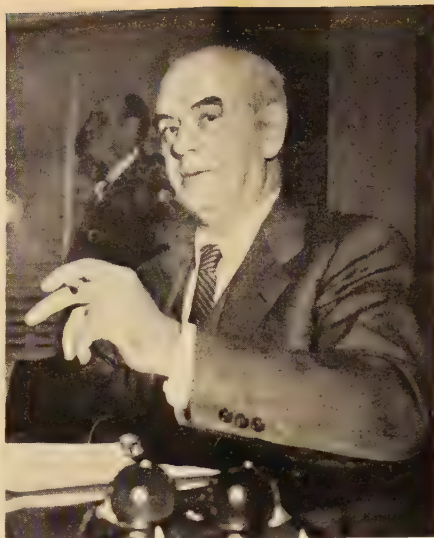
Since the final break appears unavoidable, the Communist CIO element is already planning its counter-strategy. If a majority of the fellow-travelers had their way, they probably would follow the example of Joe Curran of the National Maritime Union and Mike Quill of the Transportation Workers and desert the Communist party in advance of the purge. This, however, is unlikely. None of the leftwing leaders appears formidable enough in his own right to veer away from the party line and thus bring his union back into favor with the CIO rightwing forces. Even if they should suddenly be given permission by the Communist Party to swing away from the extreme left to avoid purging, it is highly doubtful that they could move fast enough to forestall the rightwing crack-down.

Although Phil Murray's back is arched for the kill, many people will recall that the CIO president

has gotten tough with the Communists before, only to back out or compromise when the chips were down. Now, the Communists are hoping that eventualities — this time, an economic slump — will again force Murray to back away from a split that would open the CIO to outside attack. A real depression, with a wave of layoffs, breadlines and picketing, would give the Communists a "labor-must-unite" issue to exploit to the fullest. In fact, the Communists are plugging that line of thought now, drawing dismal pictures of widespread unemployment, accusing the government and the CIO of vastly underestimating the number of jobless, and demanding grandiose federal works building and liberalized unemployment benefits.

However forceful this Red strategy may prove to be, the fact remains that Murray and his rightwing purgers have committed themselves to a course from which there is no dignified retreat. To back down now would be to confirm to many people the widely-held (but unfounded) notion that the CIO is actually a creature of the Communist Party. There have been times, of course, when the distinction between national CIO policy and Communist Party doctrine was hard to find. How the CIO finally came to the forks and chose a course veering to the right is an involved story. In brief, the Communist Party bore left and is still heading that way, while the CIO paused, cogitated and then began drifting back toward center — although never seriously to the right for the CIO continues distinctly left of center.

Even now the CIO and the Com-



Rightwingers Walter Reuther (auto workers) and CIO President Phil Murray (above) will be pitted against leftwing leaders, Lee Pressman and Harry Bridges (below)

Communist Party find themselves in the same camp on some issues. For example, they both uniformly oppose the Taft-Hartley Act, laws restricting immigration, and the relaxation of government controls over industry. The point is, however, that the CIO's position is based upon "progressive" convictions, while the Communist Party position is dictated more or less directly by the Kremlin.

Comradeship Waned

The CIO shift in thinking is not unlike that which has been experienced by Americans generally since the days of wartime comradeship with Russia. The spirit of willing cooperation that once marked CIO policy toward the Communists has been replaced by hostility, and today CIO leaders are proud, in a way, of the manner in which they are about to lower

the boom on their former cronies. The luster of this accomplishment is dimmed, however, by the fact that it has taken considerable prodigal from many directions finally "to turn the rascals out."

One influence leading to the crack-down has been the Russian drive to dominate every instrument of international cooperation, among them the World Federation of Trade Unions from which the CIO recently withdrew. Also rankling the rightwing is the fact that the Communists took advantage of the war to build their strength in many CIO unions. With Communist opposition to the Marshall Plan and the Wallace movement serving as the final eye-openers, the CIO majority belatedly came to realize that its Communist bedfellows were working not only against the United States but also against the welfare of the union itself.

One thing more has administered a sort of coup de grace: the non-Communist affidavit. Lumped into the Taft-Hartley Act almost as an after-thought, this device for unmasking Communist-aligned labor unions has done more than CIO leaders are likely to admit to strengthen their hand in the battle against the Red fringe. The affidavit clearly has helped bring Communist labor leaders into the open where they have become fair game for their trade union enemies. Significantly, the Eighty-first Congress is retaining this unique but effective weapon against Communist infiltration of organized labor.

Birth of a Split

Since 1945, the annual CIO convention has deepened the chasm between the right wing, led by Murray, CIO secretary-treasurer James Barron Carey, Walter Reuther and others of lesser prominence, and the left wing, led by Harry Bridges of the Longshoremen, Albert Fitzgerald of the Electrical Workers, Ben Gold of the Fur Workers, and Grant Oakes of FEW, among others. In 1946, the CIO went on record to "resent and reject" Communist infiltration efforts, and passed the two-thirds expulsion rule; but this seeming blow was softened by a condemnation of "interference" by any outside group. In 1947, issues were more clear-cut. The convention, over the frenetic protests of the leftists, voted to endorse the Marshall Plan, but again, the resolution was softspoken for it praised the idea but avoided mentioning it by name.

Nevertheless, the CIO had at last split openly with the Communist Party over an important national issue. Phil Murray was still playing the role of peace-maker between the warring factions — a thankless job for which he is sometimes credited with having prevented a premature break and thus a collapse of the rightwing expulsion drive. But he was obviously growing firmer. Whether he was actually leading the rightwing, as his aides contend, or simply catching up with it, as some critics believe, is an open question.

At any rate, by early 1948, when the 52-man Executive Board faced the Third Party issue, Murray was

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What's Wrong With Direct Mail?

By A. M. ANDERSEN

Chicago Manager, Direct Mail Division
The Reuben H. Donnelley Corporation

WHAT'S wrong with direct mail advertising?

The answer is easy: "very little" if properly handled, and "a great deal" if improperly handled. I would not undertake to point out "what's wrong" were it not for the fact that direct mail advertising, when wisely utilized, is one of the most potent promotional media ever devised. Invariably, the errors stem from the mishandling of an advertising tool that is basically sound and effective.

The trouble with direct mail advertising — in practice — is the same trouble that is confronted in every other form of advertising. It does not consistently reach the right prospects. As a result, advertising becomes more costly than it need be, simply because it is wasted on people who are not and may never be potential buyers of the products or services offered by the advertiser.

All advertising is, in reality, a constant search for the perfect medium. The mailing list is the key to success in direct mail exactly as the type of circulation is the key to successful publication advertis-

ing, and the type of listeners is the key to successful radio advertising. Were this not of crucial importance, newspaper and magazine publishers and radio station operators would have little excuse to continue spending millions of dollars analyzing their readers and listeners. Publication and radio circulation is based on the common interests and tastes of people — people who like to read *TIME* or *GOOD HOUSEKEEPING* or the *SATURDAY EVENING POST* and people who like to listen to Arthur Godfrey or Milton Berle.

Media Money Wasters

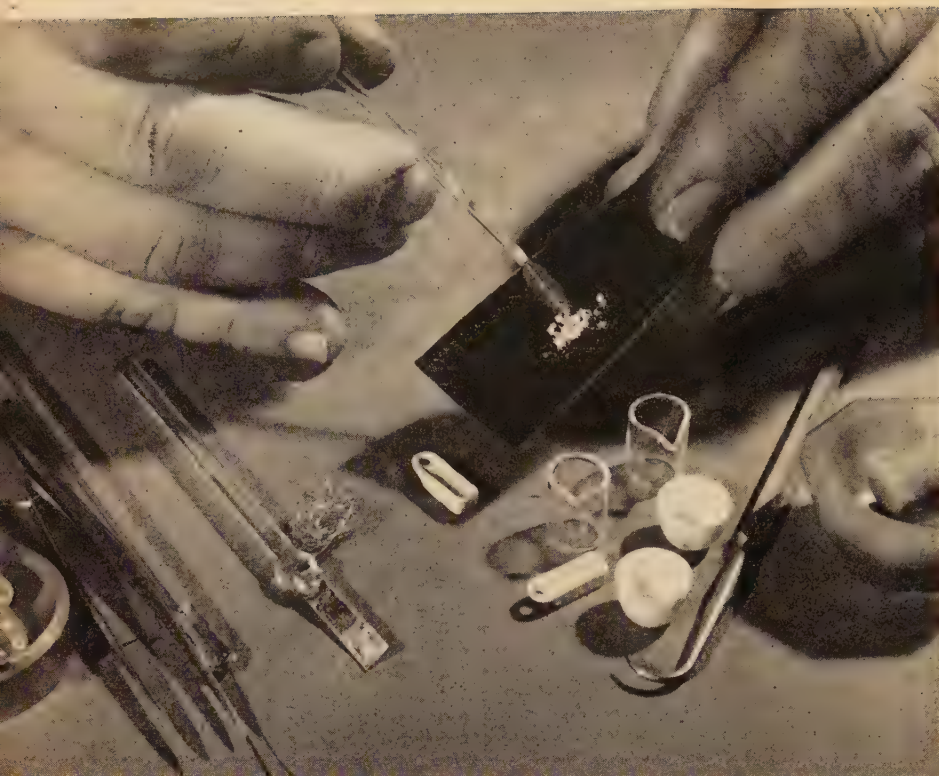
It is this circulation that the advertiser buys, nothing more; it is this alone that the medium has to sell. Immense amounts of money have been wasted through the careless choice of media, because so much of the circulation is of little or no value to a given advertiser.

Direct mail circulation or lists are normally compiled along distinctly sharper lines. Dentists, doctors, owners of trucks, manufacturers of optical goods are the logical pros-

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COX



Tiny tools and materials make up much of the micro researcher's equipment

DON'T be surprised if the next chemist you hire pulls his entire laboratory out of his vest pocket and announces he's ready to go to work. If he's a specialist in the budding field of microchemistry, he could do just that. Some of his instruments are so small that enough test tubes, beakers, crucibles and related paraphernalia to equip a laboratory would scarcely cover the palm of his hand.

Microchemistry involves the study of mere specks of matter; some actually too small to be seen with the naked eye. Thus, it has, of necessity, begotten a scientific partner, called "micrurgy," which is the technique of handling substances—some weighing as little as $1/270,000$ of an ounce—so they may be subjected to scientific analysis.

Doll-Sized Tools

The instruments of microchemistry are less than doll-sized. Beakers may be no bigger than the hollowed out end of a pencil, and even these Lilliputian containers may be too bulky for some chemists. For really small amounts, the researcher must rely on glass tubes drawn so fine that the inside diameter measures only $1/2000$ of an inch. Tiny glass hooks $1/5000$ of an

inch thick are used to manipulate the substance. These hooks are so small they make a needle's eye look like a gaping chasm. Other tools of the micro-chemist are so delicate they can pierce a clump of growing yeast cells, single out one cell, and snatch it from the rest. It takes 15,000,000,000 of these cells to make up a single gram—and a gram is only $1/27$ of an ounce.

If the instruments are delicate, the results are no less so. Microchemists have been able to detect one millionth of one billionth of an ounce of barium in a solution. They can scrape a man's hand, an-

Doing

Microchemistry

alyze the few fragments that come off, and determine whether he's touched a bronze doorknob recently. Or they can examine the surface of a dime and find if it has rubbed against a penny!

Used By Many Firms

Among the many firms that employ microchemical research are General Electric, Socony Vacuum, Fleischmann Yeast, Eastman Kodak and Bell Telephone. One of the most enthusiastic users is the Gulf Oil Company, which, among many other types of equipment, has one glass-enclosed balance that weighs accurately down to less than one ten-millionth of an ounce. In citing some of the advantages of this new method of research, Gulf points out that, of most importance, the micro-chemist can work with a mere fly-speck of material. This pays off in many ways. In the first place, reactions on the micro-level are faster, hence analysis is quicker. Furthermore, some industrial research problems offer little material for analysis—the corrosion on the hair-like filament of a radio tube, for example. In other cases, the chemical that a researcher is puzzling over may be expensive to produce, even in minute quantities.

Microchemistry is also safer, for it reduces the possibility of disas-

This portable micro-laboratory saves months of time in field testing

Gulf Oil Corp. photos



Big Things On A Small Scale

A Whole Laboratory Can Be Carried In A Handbag

By GEORG MANN

ious lab explosions and the risk of a large amount of corrosive chemicals being spilled on researchers. As a space saver, microchemistry with its tiny equipment frees two-thirds of a laboratory for other work.

"Spot testing" is an integral part of the microchemical program at Gulf's Harmarville, Pa., laboratory. Chemists analyze a single crystal or a drop from a solution, thus bypassing time-consuming separation and isolation. Special furnaces have set new records in routine analyses for carbon, hydrogen, and oxygen. A new microchemical instrument called a polarograph analyzes chemicals through electrolysis, giving results in ten minutes that used to take six hours by older methods. Other methods use tiny microscope screens to regulate the size of catalysts—those chemical pepper-uppers vital to modern oil refining.

Time-Saver

A complete chemical laboratory can be carried into the field in a container no larger than a suitcase. This single lab saves weeks, even months, that have formerly been required merely to ship specimens back and forth to a central laboratory for analysis. The chemists have

run into one hazard, however. Sometimes the samples used are so small they have to be stored in special containers, sealed up and artificially humidified. Otherwise they would evaporate while the chemist's back was turned!

"Micro-Manipulation"

A technique called micro-manipulation has given new delicacy to microchemical operations. Hooked to the microscope through which the chemist observes his reactions is a box-like framework which moves minute tubes or "pipettes." Turning a screw thread on the device will move a pipette forward or back a ten thousandth of an inch. Other tools can be hooked to the micro-manipulator for special work. Tiny chisels for scraping off invisible flakes of chemicals are worked by turning a screw. In the same way, pointers to break off clumps of substances are edged forward and back.

A host of midget tools, scalpels with blades almost too small to be seen, tiny rakes and hoes to push and pull at chemicals a breath would blow away, tweezers, saws, hammers, files, scrapers, and even midget monkey wrenches can be delicately maneuvered by the chem-

ist. Using such tools, he can cut the nucleus out of the single cell of an ameba without damaging the rest of the animal!

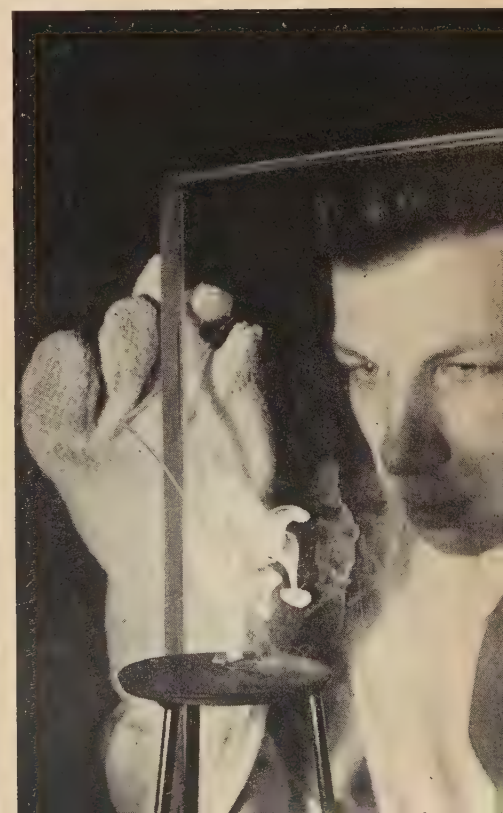
Microchemists, themselves, have had to devise many more infinitely tiny instruments to perform specialized jobs. They have made pigmy electromagnets from slim iron needles, wrapped with wire the thickness of spider's silk. The electrical characteristics of living tissue have been studied through the use of microbatteries. In studying paint films and in the electroplating of metals, chemists use tiny electroplating tanks that hold but a single drop of fluid. The anode in these tiny tanks is a mere 1/10,000 of an inch in diameter. And another micro-instrument is so delicate that it can record the slowing heartbeat of a poisoned cockroach.

Saw War Service

In industry, the methods of microchemistry have been applied to everything from making airplane engines impervious to the corrosion of desert sand to checking photographic film and from improving

A micro explosion in test tube is safe

"Boat" holding oil refining catalyst sample charged into tiny furnace



lubricating oils to turning out a better baker's yeast.

A few years ago, George F. Hand of the Fairchild Engine and Aircraft Corporation told members of the American Chemical Society how microchemistry helped in defeating Rommel in Africa. In the early days of desert fighting, sand wormed its way into airplane motors and corroded the engine parts. Then, the microchemists set to work with their unwarlike tools, analyzing the corrosion. Chisels with blades a thousandth of an inch wide scraped layers almost molecule-thick from the surface of damaged parts. Tiny hammers pommelled away at the corrosion, tiny magnets separated it, tiny rakes spread out the corroded substance on microscope slides. Micropipettes then introduced specks of liquid reagents to identify the separate chemical elements involved. By the time the analysis was over, researchers had identified the wayward chemical that was causing the corrosion, and from then on the job was easy. Allied planes functioned better in the Sahara air, speeding victory over the Afrika Korps.

Speeds Telephoning

In peacetime, microchemistry makes telephone calls go through more swiftly and surely. Every time a dial telephone call is made, a large number of electric relays swing into action, sometimes as many as 5,000 on a single call. Any

one of those relays can be thrown out of whack by as little as 1/3,000,000 of an ounce of foreign substance on the contact points. One trouble is that circuit-breaking substances can come from sources inside the relay itself. Impurities arise from the natural aging of the equipment, from normal reactions between the substances in the relay, and from airborne dust outside. Through microchemistry, Bell Telephone researchers have tracked down potential culprits and have learned, among other things, how to protect the relays against the effects of chlorine containing substances.

Eastman Kodak scientists use microchemistry to keep motion picture film free from flaws. R. N. Titus of the Eastman Micro Service Laboratory has pointed out that microscopic particles of some foreign substances in contact with an emulsion will affect 50,000 times their own projected areas. In other words, a flyspeck on the film might result in the dazzling effect of a sunrise in motion picture projection. To prevent such effects, film is given constant microchemical tests.

Yeast researchers use the tiny tools of micurgy to separate yeast cells for isolated growing. Ordinarily, such isolated cells are cultivated merely to make sure the quality of the yeast remains constant. Sometimes, however, one of the isolated cells will turn out to be superior, a prize among many mediocre specimens. When this happens, researchers immediately begin breeding the stouter youngster, standardize on it, and eventually make bread a little better.

Industry Accomplishments

A list of specific industrial developments related to microchemistry would cover a vast number of fields. Bearings have been improved through microchemical studies of their surfaces. Similar methods have led to better lubricating oils and greases. The preciseness of microchemistry is suited to handling the delicate filaments of vacuum tubes, where the chemistry of a hairsized wire means the difference between efficiency and failure. Such dissimilar products as leather pistons and electric insulators have been improved through microchemistry.

Without microchemistry, atomic science would scarcely be where it is today. The first samples of plutonium—the major ingredient of the atomic bomb—were about 1/2,500,000 of the weight of a dime. Yet as a result of this early work, the tremendous atom plants at Hanford, Wash., were eventually constructed to produce millions of times more plutonium than was first analyzed. The amounts of the new elements produced by atomic research are susceptible only to micro-chemical analysis. The first curium produced was a few flakes in the bottom of a microscopic tube barely visible to the naked eye.

Test "Old Masters"

There are odd uses too. The chemists of the New York State Racing Commission analyze a few drops of saliva to determine whether a horse has been doped or not. Art experts rely on the word of chemists, who have identified what goes into a slight shading of pigment, to determine whether a painting is a genuine old master, worth thousands of dollars, or a counterfeit worth next to nothing. By taking a trifling sample, the painting itself is preserved, for microchemistry is able to work with only a few milligrams of pigment to determine its age and origin.

Biological research is equally important. At the Jewish Hospital in Brooklyn, microchemistry has

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This device handles "invisible" items



Impractical, but dainty micro-jewelry



Kaufmann Fabry Photo

Congress is disposed to cut excises that reduce business

Taxes Headed Down— Not Up

By JOSEPH SLEVIN

FEDERAL taxes — despite President Truman's importunings to the contrary—are headed downward.

This agreeable forecast does not presuppose that the President will withdraw, even partially, his repeated demand for \$4,000,000,000 in additional tax money. Instead, it is based upon the increasingly apparent fact that Congressional sentiment now leans toward tax reductions, rather than increases. The question is: when will the cuts be made?

Barring an unforeseen upsurge in business activity, there is a fair

chance that Congress will begin cutting taxes — gently and selectively — before it goes home to face the polls in November, 1950. It is, in fact, the prospect of a further softening in business activity that is chiefly responsible for Congress' tax-cutting inclination. The tendency will doubtless become more pronounced if, and when, the business downturn becomes more severe.

Another forecast that can be made with some assurance is that Congress, when it gets around to tax adjustments, will reduce or eliminate some of the excise taxes

that have been called "onerous" and "burdensome" to business. First to be cut will be those that enter directly into business costs and the ultimate price consumers pay — notably, the three per cent tax on the transportation of things, the 15 per cent tax on personal travel, and the 25 per cent tax on communications.

Excises Hurting Business

Also pressing for attention will be the excises that, according to most businessmen, have cut down sales volume; among them, taxes on luggage, cosmetics, and jewelry. The tax-reduction argument here is that lower prices made possible by excise cuts can perk up demand where it has sagged the most.

Excise reductions are, for the moment at least, the only tax cuts that can be forecast with reasonable certainty. Beyond that, in a stable or slowly declining economy, Congress and the Treasury will be chary of tampering with any levy that is a big revenue producer. There are, however, a number of other burdensome tax provisions that Congress will be under pressure to lighten. Some are of major importance to business. Included are the controversial Sec. 102 regulating retained earnings, double taxation of dividends, loss offsets, capital gains, and more liberal depreciation allowances. Modifications in these all have one significant point in their favor: they could stimulate private investment and the flow of equity capital. Pressure to raise personal income tax exemptions can also be expected. This, of course, would ease the tax burden of lower income families and presumably stimulate mass purchasing power.

Moves toward lightening the "average consumer's" tax load, however, will bring renewed efforts, on the part of the administration and some Congressmen, to raise estate and gift taxes, plug loopholes that encourage tax avoidance (notably by the tax-exempt organization route) and to collect delinquent taxes.

The tax debate, when it comes,

(Continued on page 23)

The Equity Capital Problem



Robert E. Wilson

By ROBERT E. WILSON

Chairman of the Board
Standard Oil Company (Ind.)

IN THIS brief discussion of the equity capital problem, I want to establish three propositions: first, that there is a shortage of equity capital to meet the country's needs. My second and third propositions are that the two principal reasons for this situation are:

a. Those who know the facts about common stocks don't have the money. b. Those who have the money don't know the facts.

While I hope to present evidence to broadly justify these three quick generalizations, I freely admit that, like most generalizations, there are exceptions and qualifications to each which I shall try to point out in my discussion. Finally I shall try to indicate "what should be done about it."

Let's consider the first proposition: There isn't enough equity capital to meet the country's needs. These needs since the war have been abnormally high, for several reasons such as:

1. There was no net addition to industrial plant in the 11-year period following 1929. In many years, there was a net reduction—depreciation charges exceeded new construction.

2. While there were major additions to industrial plants during the war, much of this is useless in peacetime.

3. The large individual savings

during war and pent-up demand for goods required an extremely rapid expansion of plant during the period of high construction costs immediately after the war.

4. Inflation raised costs of inventories, consumer credit, etc.

To illustrate, 1929 is usually considered a year of great expansion, yet total capital expenditures of nonagricultural corporations were:

	(In billions of dollars)				
	1929	1939	1946	1947	Est. 1948
Capital Expenditures	\$9.2	\$5.2	\$12.0	\$16.2	\$19.0
Net Increase In Corporate Inventories	1.1	1.0	9.0	7.2	5.5
Total	\$10.3	\$6.2	\$21.0	\$23.4	\$24.5

But the postwar expansion was financed, so why should we talk about a shortage of equity capital. Well, let's see how it was financed.

The major factor in financing 1948's record-breaking capital expenditures of \$19,000,000,000 was the record-breaking plow-back of \$12,000,000,000 out of the net earnings of these corporations. In other words, while these companies in 1948 earned \$19,000,000,000 after taxes, only \$7,000,000,000 was paid out in dividends, and the rest was put back into the business. The only other important internal sources of corporate funds were depreciation and depletion charges totaling \$5,500,000,000, so \$12,000,000,000 plus \$5,500,000,000, or \$17,500,000,000, leaves \$1,500,000,000 of the capital expenditures to be covered by funds from outside sources. This isn't the whole story, however, because corporate inventories increased by \$5,500,000,000, and increased credit to customers, less trade debt, amounted to \$3,000,000,000, so total cash required from outside sources was just about \$10,000,000,000. Of this, \$5,000,000,000 came from the sale of notes and bonds, \$4,000,000,000 from bank loans, and less than \$1,000,000,000 from the sale of stock, of which half was common and half preferred. In other words, only five per cent of the outside money came from the sale of common stocks! That is a distressingly low

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James F. Oates, Jr.

By JAMES F. OATES

Chairman of the Board
Peoples Gas Light and Coke Company

I WANT to discuss the equity capital problem in its impact on public utilities, having three basic points in mind:

First, the inevitability of replacement and expansion in the public utility field. Second, the peculiar and current problems, in the light of present economic conditions, resulting from the overwhelming and basic conditions resulting from public regulation, and, third, the job of public utility management in seeking to solve these problems with the help of all members of the business community.

As to inevitability, there can be no doubt that the job of every utility is to see that the public receives the service which the public needs and demands at the lowest rates which the utility can afford and to expand its plant and replace its facilities to provide that service. There is nothing more unwholesome than the plight in which utility companies have been found, due to causes not of their own making, where they cannot serve the needs of the American public.

The estimate is that gas and electric utilities will require 10 to 12 billions of dollars of new capital over the course of the next five years to meet the public demand. Whatever may be the opportunity of private industry to pull in its horns (as Dr. Wilson suggests)

that opportunity certainly is not present to the same degree in the public utility field. In the City of Chicago, the Peoples Gas Company, for illustration, has some 920,000 meters. Of that number approximately 400,000 are in family residences, which spells the potential space heating market. Of that 400,000, more or less, our company, after the start of the next heating season, will have approximately 50,000 customers employing gas as a fuel for heating residences.

We have been operating under a limitation order which was wisely entered by the Illinois Commerce Commission to protect service to our general customers and authorize the Peoples Gas Company to restrict the attaching of additional space heating customers until additional supplies of gas are available. Still, we have more than 20,000 people on the waiting list, and of that 20,000 the great majority seem to state that they are intimate friends of the Mayor or the Chairman of the Illinois Commerce Commission and have had heart trouble. The need for our product is there — the market is there. Public utilities must expand to meet that need. That means that utilities must find capital. In finding that capital, the public interest and the interest of investors requires that a substantial part of this additional capital be in equity.

Leverage Works Two Ways

During the course of the past few years many companies have financed largely through debt with low interest cost. This has whetted the appetite of stockholders for increased earnings and dividends resulting from the created leverage. It has also created a fear of dilution of anticipated earnings which might result from the sale of additional shares of stock. I think that many stockholders possibly forget that leverage can be as painful on the way down as it is joyous on the way up. They also forget that one reason why companies have been able to sell debt securities at low interest rates is simply because the companies through adequate financial planning had a sufficient amount of their total capital represented by equity. The credit standing of companies cannot be maintained and they cannot successfully sell fu-

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In place of its customary "Speech of the Month" COMMERCE here presents digests of three speeches on one of the most critical problems of the day, the shortage of equity capital for industry. The three talks from which the following highlights have been drawn each approach the problem from a different viewpoint. Dr. Wilson deals with the question from the standpoint of industry generally, Mr. Oates from the standpoint of the utility industry and Mr. Hargrave from the viewpoint of the investor. The talks were presented at a public affairs luncheon of the Chicago Association of Commerce and Industry on June 1.



Homer P. Hargrave

By HOMER P. HARGRAVE

Senior Partner of Merrill, Lynch, Pierce, Fenner and Beane

IN DISCUSSING the equity capital problem from the standpoint of the investor, I shall attempt to give some of the ideas I and my firm have gotten from our many contacts with investors and potential investors, both large and small, through the offices we operate in 98 cities from Coast to Coast. If some of this sounds critical of big business, please remember that I am trying to reflect a cross-section of investors' opinions as we get it through our association with the investor, and also give some opinions of our own which we have accumulated through this association.

The points I will try to discuss are:

1. Why are common stocks selling so low in price in comparison to their book values, their earnings, and their dividends?

2. Why is the American pub-

lic so reluctant to invest its savings in common stocks?

3. Why does industry get its risk capital by way of the plowed back earnings method or by borrowing money, instead of through the sale of common stocks? In other words, why is there such an apparent dearth of equity capital?

In the first place, I want to say that in my opinion there is no dearth of equity or risk capital, either actual or potential. America is fairly bursting with capital available for investment. It just hasn't found its way to the market.

In the second place, I want to say that in the opinion of a vast number of present investors, former investors, and potential investors, there is, on the other hand, a great dearth of attractive risks offered to them, and a very honest-held opinion, that probably equities have not yet seen their lows.

Saving Still High

Regardless of high taxes, high prices, and the much publicized sorry plight of the rich man, and the high salaried executive, in this high tax period, total savings in the U. S. in 1948 amounted to better than \$15,000,000,000. (This figure, of course, includes money invested in homes, in savings bonds, in life insurance, in new securities, money in the bank, and that hidden under the mattress.)

Last year \$6,000,000,000 was invested in the securities of corporations, but most of the money came from insurance companies, not individual investors. Common

and preferred stocks accounted for only 15 per cent of this \$6,000,000,000. All of the rest was invested in bonds.

Common stock, or call it real, honest-to-goodness risk capital, accounted for only a miserable eight per cent of this figure.

Why is this? "Why should it be?" Is the lack of equity capital the reason for it, or are there other and better reasons available?

According to all the classical economic doctrines, savings of a total of \$15,000,000,000 in one year should cause a tremendous demand for investment vehicles. This demand should be reflected immediately in the prices for securities. Everyone knows that when a lot of money is seeking investment stock prices rise. When stock prices rise, it becomes easier to sell new stock issues, and underwriting houses become quite active.

Hasn't Happened

None of these things has happened. The stock market has been dull and lower for almost two years. New common stock financing has not amounted to a drop in the bucket. This situation is the most unusual in the entire history of American industry. It raises two extremely pertinent questions that

I mentioned in the beginning. The first one is why are the American people with lots of money in the bank, money they have saved out of their earnings, refusing to buy common stocks. The second question is, is there anything that can be done about it.

Possible Answers

I will not promise to give you the answers to either one of these questions, but I will enumerate several things which are the result of some of our studies, which I think could be considered an approach to the answers.

The first reason for the apparent shortage of equity and risk capital in the market is that the savings today are held by a different group of people than those that held savings a generation ago. Anyone who does not believe that there has been a redistribution of wealth in this country, in the last 15 years, simply is not conversant with the facts. The bulk of the savings today are distributed among hundreds of thousands of thrifty average people in the middle income brackets.

They have heard a lot about stock. They started hearing about stocks back in 1932 in the heart of the great depression, and they

heard plenty about that depression having been caused by the stock market. Many of them promised themselves, then and there, that they would never have anything to do with a stock. In fact, the very word stock is still a "dirty name" to some of them.

Proof of the foregoing opinion was furnished by the Federal Reserve Board last year when in connection with their survey they specifically asked the question "Why don't you invest in common stocks?"

Thirty per cent of the people asked said quite frankly that they did not know anything about investing in common stocks. I think it is perfectly obvious that a lot more than the 30 per cent who were willing to admit they knew nothing about investments had a similar feeling.

Matter of Mystery

This whole business of finance is utterly and completely mysterious to a vast majority of the people in America. Furthermore, it is a national trait that we are all quite bashful about admitting our ignorance about anything. I and my firm know perfectly well from evidence we have accumulated in the last 10 years, that many people go into a veritable mental torment before they screw up enough courage to come into our office and talk to us. They are afraid to come in because they don't know the questions to ask, they don't know the terminology to use, and most important of all, they don't want anyone to realize just how ignorant they are.

The third thing, which I believe has kept people from investing in common stocks, and this applies to both the wealthy and the middle income groups, is the almost pathological and hysterical "Search for Security", which seems to characterize this day and age, and is a movement which has spread around the world. This search for security is exemplified in hundreds of different ways. It takes different forms in different places, and there is not a man who doesn't feel a bit of it himself.

In England, for instance, it takes the form of socialized medicine, security from the cradle to the

(Continued on page 30)



Taxes Headed Down

(Continued from page 19)

is certain to produce a real battle in Congress, for it is likely to occur at a time when the federal budget is sinking further and further into the red. Hence, tax reductions will mean a deeper plunge into deficit financing. Proponents of a "balanced budget" will endorse the tax cuts only if convinced that they will stimulate business, increase national income and thus, eventually, increase federal income, rather than reduce it.

The tax debate, moreover, will bring to the foreground a question that perplexes tax experts in and out of Washington: if the federal government could not make ends meet when national income and tax revenues were at record highs, what financial wizardry is going to keep it out of trouble in a period of declining national income? Posing the question is simpler than finding the answer!

The economy is now moving into a period of decline with neither a surplus nor a balanced budget, but a steadily mounting deficit in federal financing. There were economists who said that such an eventuality was well nigh "impossible" a few years back. Today, the "impossible" has happened.

Literature Outdated

Since the war, many business and financial organizations in advocating national debt retirement have insisted that a reduction in federal spending must precede tax reductions. The hitch was, of course, that spending never did stop rising and, as a result, the wealth of tax literature that has been written in the prosperous post-war years now affords little guidance on what to do with taxes when business is turning down, revenues are falling and the budget deficit is widening.

The administration certainly has no good answer to the problem. President Truman, a rather straight-laced advocate of debt retirement, has had his own formula for working toward a "balanced budget" but it has borne little resemblance to the program endorsed by most articulate business groups. The President's solution was to provide the government with a financial cushion by keeping taxes high more or less indefinitely.

Service*

*Our most important product!

3 COMPLETE WAREHOUSE STOCKS TO SERVE YOU BEST 

EXCELLENCE IN ELECTRICAL PRODUCTS
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ELECTRICAL SUPPLY CO.

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- SOUTH BEND 325 N. Lafayette Blvd., Phone 4-1173

Whether we would now have a surplus or whether the "disinflation" would have started sooner if the Eightieth Congress had not cut taxes against his wishes is a question that economists will argue for years to come.

In either event, the nation is not in the favorable fiscal situation that many had hoped would prevail when the dip came, and the administration, thus far, has developed no tax policy to deal with conditions as they exist today. Some businessmen and Congressmen are again demanding a sharp reduction in federal spending as a means of getting the budget into better balance. There is slight chance, however, that federal expenditures will be appreciably reduced until more settled international conditions prevail. Nor is it likely that the President will be able to cut domestic expenditures either.

The one argument for tax reductions springs, therefore, from the fact that business is falling off. In such an economic atmosphere, Congress will be inclined to listen intently to pleas for thoroughgoing federal economy and, also, to the

proposition that tax adjustments, not more spending, will have the most salutary effect on the nation's economy.

Street Proposals

New York Stock Exchange President Emil Schram, who has long been concerned with the impact of taxes on the flow of equity capital, has indicated that the exchange will limit its request for tax changes to two features of the present law. First, it wants to have the effect of double taxation of dividends eased by allowing individuals a credit, starting at 10 per cent, for dividends received, when computing their federal income tax liability. Second, it wants the maximum effective capital gains rate cut from 25 per cent to 10 per cent and the long term holding period reduced from six months to three. The exchange plan is to allow an individual to charge a maximum of \$5,000 of capital losses against his ordinary income each year.

In behalf of these proposals, Schram declares, "it is vital that we take steps to create a more favorable climate for investment so

that no serious drops in expenditures on new plant and equipment will materialize."

While the Treasury Department has shown no enthusiasm for the exchange proposals, it does favor one industry-endorsed proposal to allow business a one-year carryback and a five-year carry forward of net operating losses. This widely supported change would encourage risk capital to move into new enterprises once it was established that they could carry forward the losses of early years against subsequent profits. And it would remove the burden of "artificial" annual profit and loss statements from companies in "feast and famine" type industries. Subject to strong cyclical swings, they can figure their profits and losses fairly only over a period of more than a year.

There is strong sentiment in Congress, though not in the Treasury Department, to liberalize Section 102 of the Internal Revenue Code, which penalizes corporations found to have accumulated larger reserves than "reasonably" needed. Designed to encourage large dividend payments, this section is under attack from businessmen who

"FAST, SAFE, DEPENDABLE!"

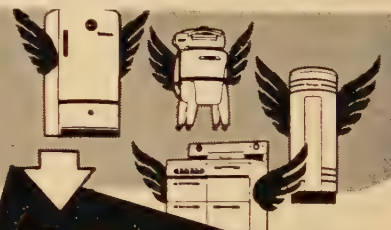
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ABOUT

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Through just such fast, safe, dependable Overnight Delivery service, Capital AIRFREIGHT can mean an extra profit potential to your business by helping you send more products to more markets quicker, cut expensive packing costs, cut expensive warehousing costs and operate with smaller inventory!



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Call your local Capital AIRFREIGHT Representative for complete details about Capital AIRFREIGHT'S Overnight Delivery service between 70 cities with connecting services to any airport in the world . . .

Capital
AIRLINES

JOHN E. COURTWRIGHT, District Cargo Sales Manager, DEarborn 2-7550

dislike the threat of having to justify retained earnings to the commissioner of internal revenue. They would solve the problem by shifting the burden of proof back to the government.

Similarly, businessmen who feel that depreciation rates are too low will be supported by many Congressmen who agree that corporations should be allowed, within reasonable limits, to set their own depreciation rates. Here again, the burden of proof rests on the taxpayer instead of on the treasury, as was the case before 1934.

The case against low depreciation rates has been summed up by George Terborgh, economist for the Machinery and Allied Products Institute. This tax policy, he said, "discourages a dynamic displacement and improvement of productive capacity. It is generally acknowledged that a slow write-off of existing plant and equipment tends to retard their replacement by newer and better facilities."

Murray's Solution

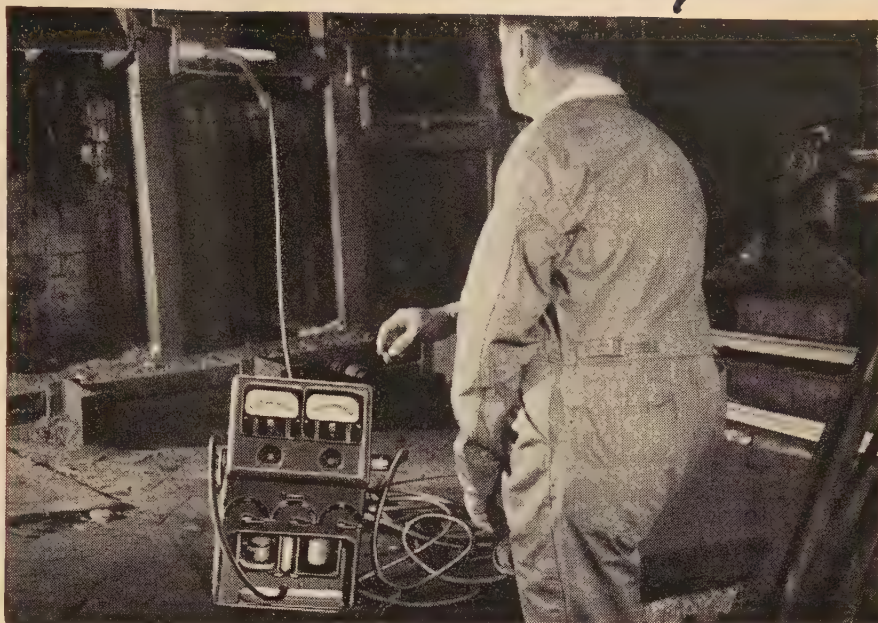
As one solution, a group of eight pro-administration senators, led by James Murray of Montana, has proposed that industry be allowed to amortize investment in some industries in five years. This is part of the controversial Economic Expansion Bill of 1949. A potentially huge revenue loss, however, will create opposition to allowing industry to make use of a more rapid write-off and to any move that would allow business executives to use their own best judgment in determining depreciation rates.

At all odds, the time is approaching when business will have a chance to argue its case for tax changes before a more responsive Congress. Unfortunately, there is virtually no chance that a badly needed complete tax overhaul will result. The more likely prospect is piecemeal revision, for the technical reason, if for no other, that it is virtually impossible to predict the revenue return from a completely new tax structure.

How closely the Revenue Act of 1950 jibes with the tax policies endorsed by business will depend heavily upon the success with which business argues its case for tax revision in the months immediately ahead.

You can get Production Increases

Immediately!



by using the remarkable

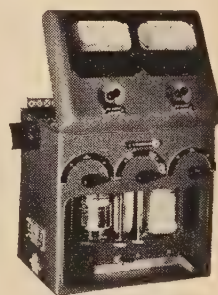
CITIES SERVICE INDUSTRIAL HEAT PROVER

Here's a service any plant can profitably put to use. This instrument will indicate quickly and accurately exactly how much efficiency you are getting from your furnaces or heat-treating units.

The Cities Service Industrial Heat Prover records stack temperature, percent oxygen and unburned fuel . . . exposes fuel waste caused by improper adjustment of either air or fuel.

The Cities Service Industrial Heat Prover tests combustion efficiency of any type of furnace, gas or diesel engine. This service is free.

Write for demonstration or free booklet: "Combustion Control for Industry." Address Cities Service Oil Company, 919 No. Michigan Ave., Chicago 11, Illinois.



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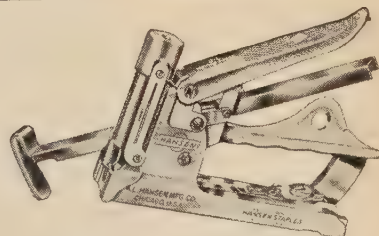
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A. L. HANSEN MFG. CO.

5067 Ravenswood Ave. Chicago 40

The Problem of Equity Capital

(Continued from page 21)

ture debt securities unless a reasonable amount of equity capital is represented in the necessary programs.

Regulation is the outstanding problem of the public utility business. Because our business is affected with a public interest, it is properly and necessarily subject to governmental regulation. However, the necessary end result of regulation in terms of rates, it seems to me, is that the utility company must be permitted to earn, in the light of present economic conditions, an amount sufficient so that a reasonable amount of needed additional capital can be represented by stock sold at a proper price. Now, what does that mean? That means that public utility management and public authority regulatory bodies must recognize that money will not be invested in the equity stocks of utility companies where it has little opportunity for large capital gains unless the rate of return is sufficient to pay large enough dividends to attract that investment in competition with others in the financial markets.

High Replacement Costs

The sorry fact is that we are faced with the necessity for substantial replacements, deferred because of war and war material shortages, and expansions at a time when replacement costs are so very much greater than the original cost of the property being replaced.

Rates of return for utility companies are fixed in terms of a percentage of, and on, original cost; that is, your rate of return cannot be more than fair and reasonable on the original cost of your plant, less accrued depreciation. It means further that in computing your rate of return the expense of depreciation charged and de-

ducted must be no more than a fair percentage of the original cost of the plant. Now, when replacement costs are about twice the original cost, and a rate of return is computed in accordance with present practices, it is obvious that the utility company is recapturing only nominal dollars and is not replacing economic value of the plant which, I respectfully submit, is the objective. I realize that this is possibly an economic problem and not necessarily an accounting problem. However, utility managements and regulatory authorities should see that the rate of return is sufficient so that earnings can be retained, after dividends have been declared, in an amount sufficient so that the inadequate depreciation plus the retained earnings will come somewhere near equaling replacement values.

The third point. What are we going to do about it?

I am indebted to Paul Russell, president of the Harris Trust and Savings Bank, for these statistics:

Of the \$27,500,000,000 in circulation at the end of 1948, individuals held \$24,000,000,000 outside the banking system. Individuals now have \$50,000,000,000 in demand deposits in banks, \$56,000,000,000 in savings accounts, and \$70,000,000,000 in government securities. If you add to those items

the cash surrender value of life insurance policies and other similar items, you find that the total liquid means of the American people is not far short of \$300,000,000,000 dollars. In 1948 the American public invested \$11,800,000,000, of which only \$1,000,000,000, less than nine per cent, was invested in the stocks of American enterprise. The electric utility industry in 1948 sold securities and received \$1,240,000,000, of which only \$115,000,000, less than 6.16 per cent resulted from the sale of stock.

Plan For Utilities

It is obvious that the management of utility companies must do at least these things.

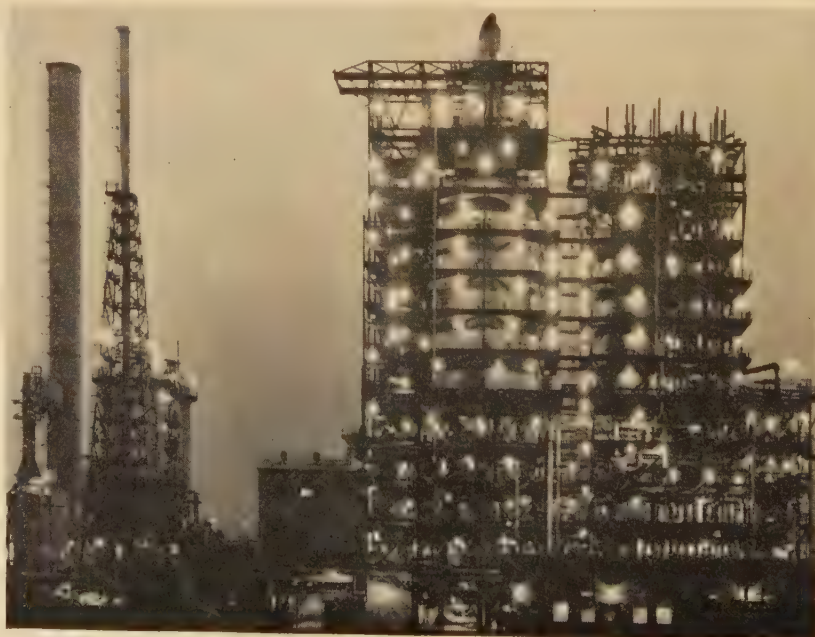
1. It must so operate its business in the public interest that it acquires the respect and confidence of the great American public who are not only its customers but now hold the money which is going to be invested in its business.

2. In planning capital structures for the future utility managements must not dig a potential grave by selling an inordinate amount of debt.

3. We must analyze, with the help of our friends in the business community, where these markets are for funds and educate the American public in two very vital and fundamental facts.

First, the American public which now holds this vast sum of money

now holds this vast sum of money must recognize (as Dr. Wilson has suggested) that an investment in the equity securities of American business is an investment in the future of our country—it is an investment in America; and second, as far as the utility business is concerned, we must say and prove that an investment in expansion in public services is a safe, prudent and income-producing location for the public's dollars.



In the oil industry average investment per present job is \$25,000. New jobs cost about \$50,000 each in investment

What's Wrong With Direct Mail?

(Continued from page 15)

pects for certain specialized lines of goods and services, and precisely these people and their business firms can be compiled into direct mail lists. There is, of course, no such thing as a "perfect list" and decidedly few near-perfect lists. A company that can find one containing all or most of his potential customers and no one else is extremely fortunate.

Incidentally, my company, the Reuben H. Donnelley Corporation, is not a "list house" in the common understanding of the phrase. It has only three lists, not hundreds, although these three are noted for their giant size. They are the national automobile owners list, consisting of the names and addresses of all registered car owners, plus additional information on the make and age of their cars; the national truck owners list, consisting of the names and addresses of all registered truck owners together with the make, age, and weight or capacity of their trucks; and the national occupant list which is probably the largest mailing list in the world, reaching, as it does, 35,000,000 American families.

Use Of Lists

Realizing the tremendous importance of proper lists, we have always been ultra-cautious in recommending new and untried uses for our three big lists. For many years promotional work involving the auto and truck owners lists were strictly limited to car manufacturers, rubber and petroleum companies, accessory houses, and the like. More recently, however, our views have been liberalized somewhat, by the successful results obtained by some advertisers who used the lists to promote what appeared to be highly improbable lines of merchandise.

The case comes to mind of the Georgia monument maker who back in the early 'thirties ordered the auto owners list for a dozen southern states at a cost of thousands of dollars. When asked what he intended to do with the list, he told us he planned to sell tombstones by mail. Well, we never did learn how many tombstones he sold, but we do know this: for

years he continued to pay a handsome sum for each new annual compilation and his orders stopped only with his death. Obviously he had discovered that people who own cars are excellent prospects for tombstones, which may lead one to surmise that the Southern motorist must be a rather fatalistic citizen!

Other experiments have since shown what should have been ap-

parent all along: automobile owners buy just about everything.

While the inadequacy of lists is the most common failing in direct mail advertising, ranking close behind is the slipshod fashion in which dealer-help mail is often handled. This, of course, is direct mail advertising prepared by a manufacturer and supplied to his dealers who are then supposed to imprint them with their own names and addresses and mail them to local prospects. That's the theory of the idea, anyway, but all

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The *Chessie Club* — a luxurious new diner and Tavern Lounge Car — will serve the finest food and refreshments to you and your party at the Chicago Railroad Fair. Completely air conditioned for your added comfort. Music by Muzak.

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too often this promotional literature serves about as much good as a set of dumbbells, purchased in a moment of zeal by an overweight man, and then promptly put away and forgotten.

While the dealer-help plan is theoretically sound, it results in many disappointments for the simple and, to the manufacturer, exasperating reason that many dealers won't do their part of the job on time or even do it at all. The fact, of course, is that most dealers are not accustomed to such detailed and complicated tasks. They will not (1) get the materials imprinted, (2) compile or purchase a suitable list, (3) obtain mailing instructions from the post office, (4) address envelopes, (5) seal and stamp them, and (6) mail them. They have neither the people nor the time.

Hundreds of thousands of dollars worth of printed materials — much of it excellent — can be found by anybody who wants to look for it gathering the dust of years on dealers' storeroom shelves! Therefore, the best advice to the manufacturer is for him to assume all details of the dealer-help program.

It is the only way that mailing can be assured and schedules maintained, and it is also the only way that dealer-help mailings can be tied in with certainty with the manufacturer's overall promotional effort.

Common Fallacies

When one thinks about "what's wrong" with direct mail advertising, it is not long before he gets to some of the more commonly-held fallacies regarding the medium. One is that direct mail advertising is not read. You hear people say, "Oh, I just throw it all in the wastebasket!" A direct mail advertising man heard such a remark from a friend not long ago while riding their commuter train to the city. The man asked his friend if he invariably threw it all away or, perhaps, read one mailing piece occasionally. A trifle reluctantly, the friend admitted that he did read literature involving sporting goods as well as the mailings he received from several investment houses.

"Therefore, direct mail advertis-

ing is no good?" the direct mail man asked.

"Absolutely! I would use newspaper or radio advertising."

"We have been on this train for fifteen minutes," the advertising man replied, "and in that time you have finished reading your paper. It had, let's see now, 64 pages; eight columns to the page. You spent about five minutes on the front page, perhaps three on the comics, and about three in the sports section. That leaves about four minutes and I saw you glance at an editorial and read the headlines in the financial section. How much of advertising did you read or even take the trouble to look at?"

"Last night you played bridge at my house and the radio was not on," the ad man went on, "yet thousands of dollars were spent by advertisers for the programs that you never heard. Even if the radio had been on all the time, you would have heard only one program at a time — all of the others would have been sheer waste as far as you were concerned. But you believe in newspaper and radio advertising and it is only direct mail that is no good because you don't read all of it — only the part that interests you."

The point is obvious! Nobody reads or hears every last word of any kind of advertising. He singles out what interests him. Advertisers, like nature, must be prodigal in sowing seeds. In the long run, it is probable that direct mail advertising has fully as high a readership as any other media.

"Shorts" vs. "Longs"

Another widespread notion about direct mail advertising is that sales letters should always be short — never more than one page. On the other hand, of course, there are the "long letter" men who insist that mailings should run to a couple of pages, but they are far outnumbered by "short letter" advocates.

Lincoln said that a man's legs should be long enough to reach the ground. This will not have been the first time that an advertising man has paraphrased Lincoln by saying that sales letters should be long enough to do the selling job. If the job is a simple one, the letter may contain only a paragraph or two; if it is complex, the

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Chicago New York San Francisco Minneapolis Detroit Boston
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Indianapolis Portland Superior Washington Cleveland Buffalo
Columbus Phoenix Vancouver Montreal Havana London

letter may have to have two or even three pages. "But," the short letter man exclaimed, "not everybody will read that much!" Right, everybody won't. The point is the letter will not persuade even the man who is willing to read it if it does not tell all that he needs to know.

Redundancy is, of course, another matter. There should be no superfluous words in a sales letter, whether it has one paragraph or 10. But, without wasting words, the letter should be exactly as long as necessary.

The "Gadgeteers"

Another annoying notion about direct mail advertising is that every mailing should "hit the recipient between the eyes." This notion is held by what may be called the "clever" school of copywriters, which holds that a gadget affixed to the letter — some men stay up all night trying to concoct a new gimmick — is guaranteed to arouse instant and consuming curiosity. We at Donnelley's admire real cleverness as much as anybody and we have many times used gadgets, novel fill-ins, and other devices for attention-getting purposes, but we are still not members of the "clever" school.

We prefer a "workmanlike" mailing to a "clever" one. If a gadget will help a letter, we think it is workmanlike to use one. But, just as most top-notch magazine advertising is not "clever" but workmanlike, so direct mail advertising should be. This depends on what the immediate problem is — what is being sold, to whom, and under what conditions. I have seen superb mailing pieces, for the purpose, mimeographed on a government post card, and I have seen ineffectual mailings, for the purpose, electrically typed on engraved stationery with enclosures in four colors.

Perhaps as pernicious a notion regarding direct mail advertising as any is the common belief that the only way to judge a mailing is by immediate results. You may not realize it, but sometimes the best mailing does not necessarily sell the most goods. Listen to William Baring-Gould, circulation and promotion manager of TIME, who a few years ago conducted a Circu-

lation Letter Sweepstakes in which \$500 was offered to anyone who could properly classify seven direct mail letters in the order of their effectiveness before they were actually tested.

"Among those who entered this contest," Baring-Gould says, "was an advertising executive in Chicago who sent a letter along with his entry blank in which he said: 'The kind of bet I would like to make with you is that I can write a letter that would outpull any of your seven letters.'"

"Here is part of our reply:

"We are not taking you up on your bet because we are pretty sure that you could write a letter that would out-pull any of the seven you have read. So could we — if all we wanted to do was get a higher percentage of returns. But getting people to try TIME is only part of our job.

"The other factor we keep constantly in mind is the 90-odd per cent of our prospects who will not subscribe as a result of our efforts in any given mailing. We are completely sold on the necessity of

leaving an impression of integrity and seriousness with these people, most of whom we expect to become TIME subscribers at one time or another. We are quite sure that, reaching these people as we do year after year with our mailings, these efforts have a cumulative effect which, first, directly influences many new subscribers we get — and, second, raises the renewal rate of our new subscriptions after we get them."

No Prestige Medium

Baring-Gould — a magazine man — made another statement that many advertisers might well ponder:

"When you are advertising to register how big you are, how good you are, how strong you are, then the only place for your message is in publication advertising. But when you want to make an important prospect realize what your service or your product can mean to him personally, then it is time for you to begin thinking about direct mail, too, by way of reinforced coverage to carry your mes-

GEORGE M. LORENZ STEEL CO.

MILL & WAREHOUSE DELIVERIES SHEET STEEL

COLD ROLLED STRIP IN CUT LENGTHS & COILS

HOT ROLLED STRIP
H.R. PICKLED STRIP
WELDED TUBING
TIN PLATE
TIN MILL BLACK PLATE
HOT ROLLED ANNEALED

HOT ROLLED PICKLED
AUTO BODY
ROUND EDGING
GALVANIZED SHEETS
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WE SHEAR OR SLIT TO EXACT SIZE OR BLANK

HAymarket I-0461

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sage quite literally home to the prospects you are interested in reaching."

The other side of the "immediate results" fallacy is the equally wrong notion that the cumulative and long-time results of direct mail advertising can be overlooked as unimportant. They are unimpor-

tant only to the advertiser who is here today but who knows beyond question that tomorrow he will be gone.

What's wrong with direct mail advertising? Just about everything if it isn't used intelligently. Nothing at all, if it is.

The Equity Capital Problem

(Continued from page 22)

grave. In some of the war-torn nations, security has only to do with the roof over the head, enough clothes to keep away the cold, and enough food for 24 hours, and freedom from attack and oppression.

The movement in the United States has to do with steadily enlarged social security, job insurance, guaranteed farm income, pension plans, job seniority and tenure programs; and it is illustrated most strikingly in the enormous growth in life insurance contracts.

It even gets into the upper income brackets, and in the management groups of big business. Their

search for security from cradle to grave takes the form of large bonuses, high salaries, voted to themselves, large severance pay contracts, even pensions for their widows, and plenty of other things that are displeasing to the common stockholder.

How different this is from the history of the building up of this country. It was built on risk capital. It has been an American characteristic that a man settled down and saved diligently, with great privation to himself and to his family, until he accumulated some capital. As soon as he accumulated capital, he was not only

willing to risk the capital itself, but he was willing to risk his own time and health to try to build up a business of his own, making that capital earn more capital.

The present movement is the direct opposite to the things that have made this country great. All a great portion of the public seemingly wants today is security. It does not want risk. It doesn't want to take a chance. Twenty-six per cent of the people replying to the Federal Reserve questionnaire said that they were against investing in common stocks because common stocks "simply were not safe."

The fourth reason why there is such a reluctance on the part of people to invest their savings in equity capital is the basic reason, in my opinion, for the state of the stock market today.

Uncertain Times

We are now going through one of our regular recurring periods of widespread uncertainty. Individuals everywhere, businessmen, professional men, housewives, junior executives, and laborers alike are uncertain about what tomorrow holds. Each one of them has his pet fear, and I suspect he can be forgiven for what I termed his almost pathological search for security.

People with money are just sitting tight, not knowing which way to turn.

What can we in industry and finance do to start the flow of these stagnant savings into equity investments?

I am not certain just what can be done about the causes which I mentioned; and I am not going to demand lower taxes. I say this facetiously because businessmen have been demanding lower taxes ever since the day the Constitution of the United States was ratified in 1789; and taxes have been going up steadily ever since.

American finance and American industry for years only talked to itself. The vocabulary used was a particular un-understandable parlance, especially the Wall Street variety, and it was not supposed to be understood by the vast majority of our people. Business public relations today, fortunately, is beginning to get down to grass-

(Continued on page 36)

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Invest in the MIDDLE WEST

Reviews of Middle-western Companies

By DANIEL F. NICHOLSON

FOR the last decade the stockholders of the Trane Company, like the owners of many other corporations, have had to be satisfied with comparatively meager dividends because the company needed its earnings, and other funds besides, to increase plant capacity, pay higher wage rates, and carry larger and more expensive inventories as its sales expanded.

In the case of the Trane Company, at least, the stockholders' forbearance promises long-run compensations. With its enlarged manufacturing capacity and the introduction of new products, the company is a stronger competitor than ever before and has won a favorable position in the fast-growing air conditioning field; new factory buildings and extensive additions and replacements of machinery and equipment have contributed to greater efficiency. One criterion of what has been accomplished is the increase of net sales from a little more than \$5,000,000 in 1939 to \$22,600,000 in 1948, and a further gain in the first quarter of 1949 to \$5,901,593 from \$5,593,000 for the first three months of 1948.

Products

The Trane Company manufactures heating, cooling, and air conditioning equipment for use in homes, factories, commercial structures such as hotels and office buildings; and in airplanes, railroad passenger cars, buses, etc. The wide gains in sales since the end of the war has largely reflected the building boom, although new industrial uses for its products and systems have also been an important factor.

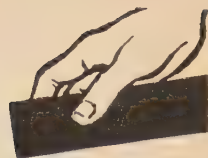
The first notable advancement in the company's fortunes came in 1923 when Reuben N. Trane, son of the founder and now chairman and president, completed the de-

velopment of a heat transfer coil that is the heart of most Trane equipment. The heat transfer coil is simply a non-ferrous tube with a multitude of closely spaced fins attached to it mechanically. When the coil is heated by steam or hot water, or cooled by chilled water or a refrigerant, the fins quickly become hot or cold as the case may be. Since the fins present a greatly magnified surface as compared with the coil, the effect on the surrounding air is correspondingly magnified. Thus the coil with fins provides faster and more efficient heating or cooling. In many applications a fan is used to blow or draw air across the coil.

Line Has Over 100 Items

More than one hundred individual products are manufactured by Trane, from small radiator valves to 20,000 pound compressors. The company places its products in twelve classifications: Heating coils, cooling coils, fans, refrigeration equipment, air conditioners, unit heaters, convection-radiators, unit ventilators, steam heating specialties, such as valves and traps; hot water specialties and pumps, special coils, and "miscellaneous" items. The components of these groups are so integrated that they can be made and used together, so that a Trane system can be designed for virtually every heating or air conditioning application.

Many of these products are of a type that is quite familiar. The convector radiators for example, have largely displaced the old-style radiator in modern homes. Unit heaters, whether of the projection type that blows warm air downward or the radiator type with a blower fan, are familiar in factories, garages, and other buildings. Large exhaust and ventilating fans made by Trane Company are widely used in industrial and commercial applications.



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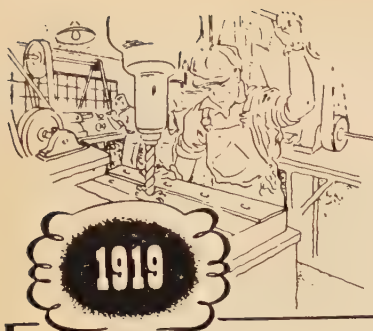
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The company has been an active developer of air conditioning equipment, and Trane systems have been installed in many outstanding buildings, including the new Shamrock Hotel in Houston, Tex., the Equitable Building in Portland, Ore., and the ECA headquarters in Washington, D. C. The air conditioning equipment is made in units with from three tons to 100 tons capacity.

The year 1948 is rated by Trane as its biggest in the development and introduction of new products and new models of existing products. Two of the new 1948 products were important additions to the air conditioning line. The new Unitrane room unit for air conditioning office buildings, hospitals, and other multi-room buildings, provides individual moisture control for each room, as well as room temperature and ventilation control. These units have no ductwork. Simple piping delivers chilled water for cooling, or hot water for heating.

New Type Air Conditioner

A new multi-zone air conditioner introduced in 1948 delivers heating or cooling simultaneously to different zones of a building. A small unit for year around air conditioning of tourist courts, hotels, and apartments, was also placed on the market.

Five new or improved heating products were added in 1948. One is called the Kinetic Orifice, a device that forces out steam and condensate from non-freeze coils, thereby increasing the heat transfer capacity and reducing the hazard of freezing. A "cloverleaf diffuser" for projection heaters directs the heated air into whatever patterns are desired. An improved version of the company's propeller fan unit heater was marketed. Another new product was a cooler for engine jacket water and lubricating oil, with applications ranging from small gas and diesel engines to giant prime movers. Finally, the company in 1948 announced a new model automatic feed and relief valve for hot water heating systems.

In addition to introducing new products, Trane Company in 1948 leased a new factory in Scranton, Pa., close to the eastern market and to sources of raw material,

particularly steel. The new factory costing \$310,000, was built to the company's specifications and leased to it for ten years with a 2½ year renewal option and an option to purchase. The factory contained 70,000 square feet of floor space. Approximately \$361,000 was spent for new machinery, special equipment, and tooling. The new unit was in operation during the final three months of 1948, producing convector-radiators.

Plants

Trane's principal plants are in La Crosse, Wis., and consist of three separate units with an aggregate manufacturing space of more than 250,000 square feet. Approximately \$365,000 was spent last year on new machinery and equipment for the La Crosse plants, and in January, 1949, construction was started on a 10,000 foot plant addition to cost \$60,000. A subsidiary, Trane Company of Canada, Limited, operates a plant at Toronto and manufactures for Canadian and British Empire markets.

Expansion of plants, introduction of new products, an increase in research activities, and the strengthening of the sales force which has been doubled since 1945, were part of a program to put the Trane Company in shape to meet the competitive conditions of a buyers' market.

Sales offices are maintained in 57 American cities, along with 14 in Canada, and 34 in other countries. The company makes no installations itself. Trane salesmen, all graduate engineers, deal largely with architects, engineers and contractors. Heating and air conditioning contractors are the principal customers, but sales are made direct to large industrial organizations that have their own engineers and installation mechanics, and to wholesalers.

One of the functions of the field salesman is to assist contractors or architects in figuring the equipment requirements and costs of major installations. When the project requires it, the company manufactures custom built equipment.

Company publications supplement the activities of the sales staff. A monthly magazine, WEATHER MAGIC, is sent to 30,000 architects,

engineers and contracts. It contains stories and pictures of Trane product installations. The semi-monthly Trane News goes to the salesmen in the field, with sales ideas, technical data, and other information.

Sales Hit Record In 1948

Last year's net sales of the Trane Company were at a new all-time record of \$22,613,734 and compared with \$20,956,830 in 1947. Because of higher material costs, a shortage of steel, and the effects of a strike that lasted a little more than a month in the La Crosse plants, net earnings declined in 1948 to \$1,832,328, or \$6.11 a share, from the 1947 peak of \$2,121,961, or \$7.07 a share.

Although first quarter sales this year were higher than for the first quarter of 1948, net income dipped to \$415,910, equal to \$1.39 a share, from \$458,361, or \$1.53 a share.

A ten-year comparison of consolidated figures for net sales, net income, earnings per common share, and dividends paid per share, follows:

	Net Sales	Net Income	Share	Share
			Per	Div.
			Pd.	Per
1948	\$22,613,734	\$1,832,328	\$6.11	\$2.00
1947	20,956,830	2,121,961	7.07	2.00
1946	13,839,855	1,203,872	3.97	1.00
1945	10,827,399	460,678	1.76	1.00
1944	9,547,825	387,849	1.47	.80
1943	8,929,877	506,584	1.93	.65
1942	9,469,720	485,895	1.85	.625
1941	8,549,357	628,517	2.41	1.00
1940	6,175,808	505,182	1.92	1.00
1939	5,052,812	524,793	2.00	1.00

*Based on 300,000 common shares in 1948, 1947 and 1946; 254,095 shares from 1945 to 1940, inclusive, and 252,890 shares in 1939.

Although the conservative dividend policy helped the company to finance its plant expansion and provide a substantial increase in working capital, Trane entered into a bank loan agreement in April, 1948, for a revolving credit up to \$2,000,000. At the end of 1948 the company was using \$1,000,000 of this credit, and it has now been converted to a five-year term loan.

Except for the bank loan, Trane Company has no debt other than current trade obligations. Capitalization consists solely of 600,000 authorized shares of \$2 par value capital stock, of which 300,000 shares are outstanding. The retirement of preferred stock formerly outstanding was completed in 1946.



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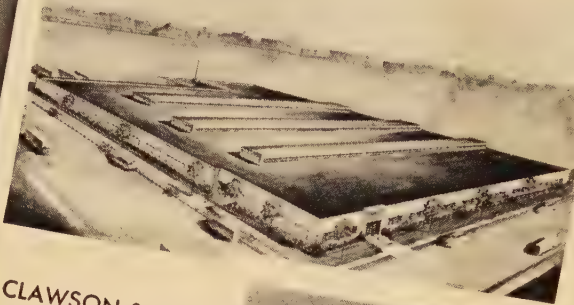
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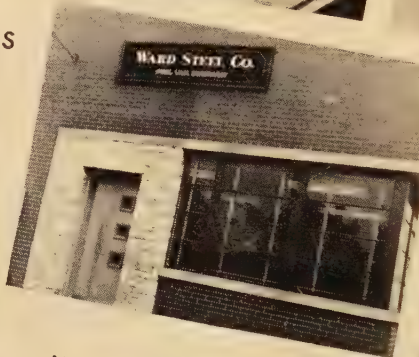
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Two public offerings of common stock have been made for the account of the company. In March 1937, Trane sold 29,875 shares and netted \$367,094. In August, 1946, another 45,905 shares were sold, the company receiving approximately \$1,400,000.

The consolidated balance sheet as of December 31, 1948, showed current assets of \$9,420,520, including \$1,582,231 cash, while current liabilities aggregated \$3,636,106, including \$1,000,000 of notes payable to banks. Property, plant and equipment were carried at \$2,600,829 after deducting depreciation reserves. Total assets amounted to \$12,058,061.

Doing Big Things

(Continued from page 18)

speeded blood analysis. Only a small amount of blood—ranging from a pinpoint to a raindrop in size—is necessary for diagnosis, an important consideration in the case of premature babies and other patients unable to spare much blood.

KU Studying Genes

In basic research, scientists are using microchemical methods in probing into the ways in which enzymes, vitamins, and hormones work. At the University of Kansas, Professor Daniel Mazia is leading a research team in the study of the chemistry of genes, trying to find out the exact chemical mechanism through which these tiny particles transmit the characteristics of parents to offspring. The work is incredibly complicated, involving the manipulation and analysis of cell bodies that measure only a millionth of an inch. In fact, the bodies under investigation are so small that scientists fear that merely analyzing them may change their chemical structure!

In all fields, however, microchemistry is still an infant—in age as well as size. The big results are yet to come, in both industry and biology. Nevertheless, what is known already has proved that big results can emerge from the smallest packages, even those as small as the microchemist investigates.



INDUSTRIAL DEVELOPMENTS

IN THE CHICAGO AREA

INDUSTRIAL developments in the Chicago Industrial Area totaled \$11,158,000 in June compared with \$9,638,000 during June, 1948. Total expenditures in the first six months of 1949 were \$53,120,000 compared with \$63,184,000 for the same period in 1948. These developments included new construction, expansion of industrial buildings, and the purchase of land and buildings for industrial purposes.

Carnegie-Illinois Steel Corporation, U. S. Steel Corporation subsidiary, is installing a galvanizing line and a terne line at its Gary sheet and tin mill. **F. H. McGraw and Company** and **Wean Engineering Company**, engineers and contractors.

Continental Foundry and Machine Company, 145th and Railroad avenue, East Chicago, Ind., has purchased the foundry which it operated during World War II. The foundry, which is adjacent to the company's plant, is located on eight acres of land and includes two open hearth furnaces.

Sunbeam Corporation will construct the third unit of its new plant in the 5400 block on West Roosevelt road. The unit will contain 150,000 square feet of floor space. **Campbell Lowrie Lautermilch Corporation**, general contractors; **Olsen and Urbain**, architects.

Calumet Harbor Terminals, Inc. has purchased the shipyard property at 130th street and the Calumet river which **Pullman-Standard Car Manufacturing Company** operated during the war. The property will be used as an interchange rail-water terminal.

Vadnercook and Sons, Inc., 300 N. Kilpatrick avenue, will construct a 16,000 square foot plant

across the street from its main plant and office. The company manufactures proof presses and other printing equipment. **Johnson and Johnson**, architects.

Corn Products Refining Company, Bedford Park, Ill., is constructing the third addition to its plant. **Sargent and Lundy**, engineers; **Bedford Construction Company**, general contractor.

R. R. Donnelley and Sons has purchased the multi-story plant at the corner of Calumet Avenue and 21st Street.

Williams Manufacturing Company, 161 W. Huron street, has purchased the one-story building at the northeast corner of Kildare avenue and Fillmore street. The building contains 20,000 square feet of floor area. **Leonard Downie and Company**, broker.

Northwestern Plating Works, 2029 Ogden avenue, is constructing a plant at 3114 S. Kolin street. The plant will contain about 15,000 square feet of floor area. **Joseph Klecka**, architect.

Siegel-Weller Packing Company, 4531 S. McDowell avenue, is expanding its plant through the construction of a second floor. **H. C. Christensen**, architect.

Rand McNally and Company is constructing a 12,000 square foot addition to its plant in Hammond. The plant is operated by its subsidiary, the **W. B. Conkey Company**.

Storkline Furniture Corporation, 4400 W. 26th street, will construct a 9,000 square foot addition to the plant at 4420 W. 26th Street, which it purchased. **Krahl Construction Company**, general contractor.

Goldsmith Brothers Smelting and Refining Corporation, 1300 W. 59th street, is expanding its plant.

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Company, 2545 W. Congress street, is adding process and warehouse space to its plant.

S. G. Taylor Chain Company, 3 141st street, Hammond, will construct an addition to its plant.

Autopoint Company, 1801 W. Foster avenue, is constructing a 10,000 square foot addition to its plant.

Archer Wire Frame Company, 3217 S. Archer avenue, is constructing a plant at 3150 S. Archer avenue. The structure will be one-story and basement and will contain approximately 8,000 square feet of floor space. Luther and Christensen, architects.

Waukegan Mirror Company, a

new company, is constructing 7,500 square foot plant in Waukegan, Ill.

Rockwell Lime Company is constructing a building at its ready-mixed mortar plant at 4545 W. North avenue.

Palos Optical Company, a newly organized manufacturer of optical instruments and lenses, has purchased a one-story brick plant in Palos Heights.

Square Manufacturing Company, 3257 N. Broadway and 1251 S. Michigan avenue, has purchased larger quarters at 340 W. Huron street. The company manufactures beverage dispensers. Lang, Weiss and Cella, broker.

The Equity Capital Problem

(Continued from page 30)

roots. We are learning to get off our high-horse, unstuff our shirts, to the extent that we talk in a language that the average American citizen can understand.

To illustrate what I mean, from my own firm's business experience and prove what a tremendous response can be expected from people when you get down to a place where you meet them half-way:

About two years ago, we published a simple little 24-page pamphlet entitled, "How to Read A Financial Report."

Some of the partners in my own firm objected strenuously to this little booklet, because they claimed it was undignified, as it was written in ordinary dime-store language. They thought it was undignified because it was illustrated with cartoons, instead of presented with the clean typographical face of an SEC prospectus. However, we have distributed over 280,000 copies of "How to Read A Financial Report," and almost all of these copies had been asked for as a result of our advertising.

A couple of months ago, our office in San Francisco decided to experiment with a short course in the principles of finance for women. My partner there made arrangements to rent a lecture room that would hold an audience of 50. When he announced in the San Francisco papers that the course would be held, 2,000 women applied for admission, and the biggest hall he could find on short

notice was one that would hold only 550 people.

On the basis of our San Francisco experiment, we are now holding similar courses for women, as well as men, in over 25 cities, and the response has been tremendous everywhere.

People don't want to be ignorant about financial matters. They just have not been afforded a decent chance to learn. While I think the financial industry can do a great deal more than it has done already, yet I also believe that we cannot do it alone, and the real big thing we have to do is to enlist the cooperation of a wider segment of industry in doing the same kind of educational work.

I believe industry can, and must, tell an institutional story, particularly one designed to inform the public about the financial facts of life. Industry must not only get over to these hundreds of thousands of holders of savings that their company makes a good product to buy, but they must also sell the idea that their company is a good place in which to work, and that the stock of their company is a good vehicle for their investment.

If you want to sell a stock, you must use the same procedure you use in selling anything else. You must tell how attractive the stock is, and merchandise it.

Another thing industry probably will have to do, or at least give

little thought to if they expect to attract the attention of the small investor and persuade him to place his savings in common stocks, is to make common stocks seem a little more attractive, and cause this same fellow to lose some of his suspicions and relieve him of his feeling that possibly he is not getting as good a break in dividends out of earnings as he should.

It is a lot to ask of the small potential investor that he understand all of the problems with which management is faced. It is quite a lot to ask that this same timid, frugal and thoughtful small investor understand all the cogent arguments that industrial management uses now days to justify the enormous reinvestment of earnings. He doesn't know all the stipulations of our tax laws, and he doesn't know the pros and cons of the argument about inadequate depreciation allowances under our present corporation tax laws.

Academic Book Value

Maybe he can be forgiven for his feelings, that book value is merely academic, at best theoretical, for he can see many stocks (and stocks in some of our finest corporations) available every day on the stock exchanges at prices that represent only a fraction of the book value, and seemingly no value given for the money that has been plowed back into those companies in the last eight years.

You and I understand all the arguments of management, and I know that I personally am sympathetic with them, but I would not be a factual reporter in the equity capital problem from the standpoint of the investor if I did not mention some of the foregoing views and report them to you as honest-held opinions of quite a few of the new holders of money. Many of them feel they have a right to receive a bigger proportion of their corporation's earnings than they have been receiving recently.

The whole problem of equity capital is somewhat of a vicious circle with politics, the public, the investment banker, and corporation management involved.

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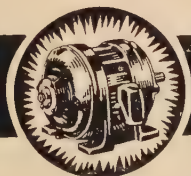
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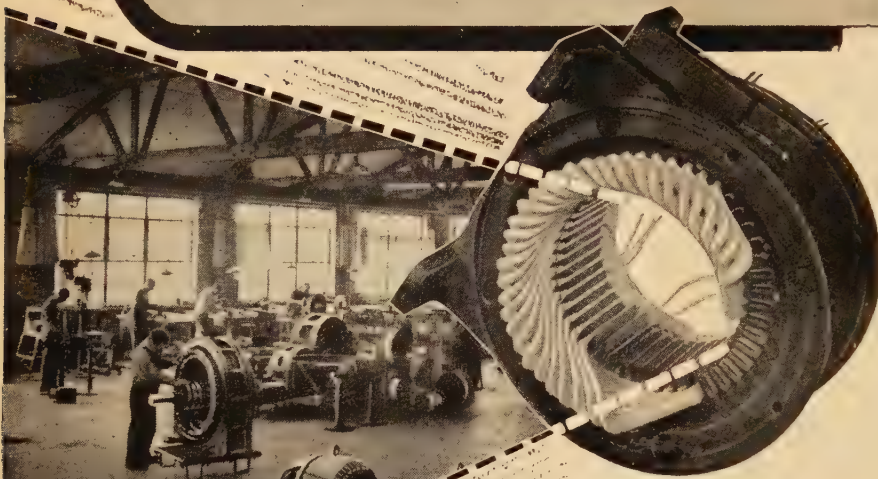
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But, if corporation management is to extricate itself and attract the funds of this new crop of small capitalists, and thereby enable America to reap the benefit of a vigorous equity capital market, each individual management must discover some way to break out of this circle.

Here, There and Everywhere

(Continued from page 9)

Institute, which is studying Pennsylvania oil fields under sponsorship of the Penn Grade Crude Oil Association, notes that ordinarily the original pumping brings forth only about 30 per cent of the oil in any pool. Secondary oil recovery, usually accomplished by pumping water into the ground and forcing oil to surface, may bring up another 30 per cent of the pool. Now the big problem is to get the rest of the oil that is held in rock pores—economically. The most promising idea is the addition of surface active agents to the flush-out water, whether this will do the trick will not be known until further research work has been completed.

• Scrap Buying at Peak in '48 —

The amount of purchased scrap used in steelmaking furnaces in 1948 was greater than ever before, reports the National Bureau of Mines. The total exceeded 20,500,000 gross tons, or nearly 2,000,000 more tons than 1947 and more than 3,000,000 tons over the wartime peak of 1942. The consumption of home and purchased scrap combined was 42,600,000 tons, also a record. This was slightly higher than the record set in 1944, the year of largest steel production.

• Your Electric Bill, Sir — Night-

time visitors to Chicago's Railroad Fair may note the almost-daylight conditions that surround the fair grounds, but few will have on tap the exact information that some 13,300,000 candlepower of light pour forth from the giant gyalalites that illuminate the show. Some of the huge lamps mounted on poles surrounding the grounds are 200,000-candlepower gyalalites customarily used as warning signals on the rear of passenger trains.



TRANSPORTATION and TRAFFIC



THE Interstate Commerce Commission on June 14 denied a petition of 18 motor common carriers operating between Chicago and points in Indiana, Ohio, and Kentucky, for a general investigation into the operating and rate-making practices of all common and contract carriers operating within this territory. The carriers' petition, which was filed in March, charged that many of the other carriers were not accepting unprofitable small shipments and were reducing rates on truckload and volume shipments on which the petitioning carriers must depend for their revenue. They also contended that carriers were probably violating I.C.C. safety rules and regulations, union rules and state weight laws, as a result of which their costs of operation were not as high as those of the petitioning lines. The Chicago Association of Commerce and Industry, along with other shipper groups and the contract carrier division of the American Trucking Association, replied to the carriers' petition urging the commission to deny their request on the ground that if the carriers had any specific instances in which certain other carriers were not complying with statutes or the rules and regulations of the commission they should bring those matters directly to the commission's attention. Furthermore, if there were any specific rates or charges which petitioning carriers believed to be unlawful they should file a complaint with the Interstate Commerce Commission as to those specific rates and not ask the commission to enter into a general investigation.

I.C.C. Vacates Demurrage Service Order: The Interstate Commerce Commission has vacated its service order No. 7775, effective June 1. Charges for the demurrage of rail freight cars after the 48 hour free

time period were \$3.30 per car per day for the first 2 days and \$5.50 per car per day for each succeeding day. The vacating of this order by the I.C.C. restores pre-war demurrage charges of \$2.20 per car per day for the first two days and \$5.50 per car per day for each succeeding day. Under the Average Agreement one debit will be charged for each of the first four days a car is held after the 48 hour free time has elapsed and a credit is given for each car unloaded in less than the 48 hour free time period. At the end of the month credits are offset against debits and a charge of \$2.20 per debit will be made for all debits not offset by credits.

Railway Express Rates in Illinois Increased: The Illinois Commerce Commission has permitted the Railway Express Agency, Inc. to increase its first and second class express rates on traffic moving wholly within the state of Illinois to the interstate level. The new rates became effective June 15 and result from the petition of the Railway Express Agency for increases in rates due to increases in operating expenses. For example, the rates between Chicago and Peoria, Illinois, would be increased from \$2.12 to \$3.14 per 100 pounds; between Chicago and East St. Louis from \$2.56 to \$3.80 per 100 pounds, and between Chicago and Cairo from \$3.00 to \$4.46 per 100 pounds. Second class rates will be 75 per cent of the first class rate.

Congress Asked to Refute \$18,000,000 Appropriation for Federal Barge Lines: The Chicago Association of Commerce and Industry has urged Congressional committees and Illinois senators and representatives to vote against S.B. 211 and H.R. 328 under which it is proposed to increase the capital stock of the Inland Waterway Corporation from \$15,000,000 to \$33,-

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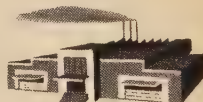
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000,000 and to appropriate the sum of \$18,000,000 for rehabilitating and modernizing the equipment of the Federal Barge Lines. A year ago the association urged Congress to require the Inland Waterway Corporation to dispose of the Federal Barge Line to private interests for sale or lease and then to dissolve the Inland Waterway Corporation. The Federal Barge Line and its predecessors have now been operated by the federal government for 30 years. By the end of the fiscal year 1947, the lines had shown a net deficit of more than \$8,000,000. The latest annual report covering operations for the fiscal year ending June 30, 1948, showed a deficit of \$2,312,000 and it is estimated that similar losses will be incurred for the fiscal years of 1949 and 1950. Under the proposed legislation, the opportunity of the Federal Barge Line to operate at a profit is exceedingly doubtful since it would confine its activities primarily to the handling of less-than-bargeload and less-than-carload traffic, leaving the handling of profitable barge-load traffic to

privately owned barge lines. Secretary of Commerce Sawyer, in his testimony before the House Committee, stated that "Such a policy would mean the continued subsidization of the operations or the increased probability of liquidation of the corporation by the government as an unprofitable venture. This policy would eliminate any chance that the corporation could be sold to private enterprise as a 'going concern' in accordance with the statute requirements." The barge line operations were started by the government as an experiment and in the opinion of the association it has been demonstrated that the handling of a large part of less-than-bargeload traffic and a substantial part of joint rail and barge traffic is unprofitable. Wherever a profit can be obtained from the transportation of commodities by water, private barge lines have and will be glad to furnish transportation services. There is no need for a continuation of the operation of the Federal Barge Lines at the taxpayers' expense.

Exit . . . The Red Fringe?

(Continued from page 14)

the firmest yet. Already, leaders of the leftist group had climbed aboard the Wallace bandwagon without waiting for the CIO to set policy. To Murray, it was unpardonable that men like Harry Bridges, who was CIO director for northern California, should act as though the CIO approved their pro-Wallace campaigning. The board, with the customary eleven dissents, voted against endorsing any third party. Once more, however, names were avoided.

After that, the expulsion drama picked up tempo. In the midst of a Communist verbal barrage against the CIO's leaders for "deserting" the people, important heads accused of Communist relationships began to roll. Lee Pressman, CIO general counsel, "resigned." With him (and to Wallace) went Len DeCaux, long-time editor of the CIO News. Bridges lost his regional dictatorship, and the leaders of several "industrial

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union councils", chartered by CIO headquarters, were purged, most notably those of the Greater New York City Council, a notorious Communist stronghold. Each was replaced by an anti-Communist.

The 1948 convention opened only a few days after the election, and the rightwingers, refreshed by their ride on the winning bandwagon but smarting from the Communists' campaign taunts, were ready to administer some harsh words of their own. Phil Murray, himself, centered his fire on the leftwingers.

Resolutions were approved directing the Farm Equipment Workers to absorb themselves into the CIO (an order they are still defying), clearing the way for a housecleaning in the Communist-ridden Department Store Workers Union, and withdrawing the CIO from the World Federation of Trade Unions.

The next-to-last act was played in Washington last May, when the executive board during a three day session ordered the non-conformists to leave the board.

Curtain Raiser

The Electrical Workers September convention will provide a curtain-raiser for the final act. Jim Carey, whom the Communists roughly shoved out of that union's presidency before the war, will try to unseat Fitzgerald in a come-back move. His own slate has a better chance than those of past years, but it will be a close fight. If he wins, the kingpin of the leftwing bloc will be gone and the CIO's November show may become an anticlimax.

Whether the end will come with an explosion or a whimper remains to be seen. Thus far, Communist defeats have been noisy, even bloody affairs, as demonstrated by the coups brought off in their unions by Reuther of the Auto Workers, Curran of the Maritime Union, and Quill of the Transport Workers. Top CIO anti-Communists now figure it will happen like this:

The leftwing bloc will make as good a show as possible of persecuted martyrs being done in by reactionary villains — theatrics which will fool few people in this country but might be convincing abroad, after the fashion of Gerhart Eisler in Southampton a few weeks ago.

Once expelled, the Communists will probably undertake to form a new labor federation of their own. It will likely be described as a "spontaneous" upsurge of sentiment, although plans for its organization were written out long ago by the party's labor strategists. The later course of events is harder to forecast. If the Reds embark on their own, they are beaten from the start. The CIO will charter new unions or redistribute the vacated jurisdictions among existing rightwing unions as a means of finishing off the Communist splinters.

Ace Upsleeve?

There are those who say the Communists may have a final ace upsleeve. They believe that John L. Lewis — enigmatic and unpredictable as always — may extend the powerful arm of his United Mine Workers in their direction. This is unlikely, but it is not impossible. For all his professed hatred of Communism, Lewis' thirst for aggrandizement might finally prompt him to take in the Communists. It was Lewis, as much as anyone else, who opened the door for Communist growth in organized labor when he and a handful of rebels from AFL founded the CIO.

For the CIO, its outlook — minus the Communists — should be brighter. Free of its Red fringe, the CIO may be in better shape to weather the economic storms that may lie ahead. Furthermore, it is confident of eventually winning back most of those who will break away with the Communists.

The departure of the Communists may also speed the day when the CIO will rejoin the AFL on equal footing. Aside from the formidable problems of conflicting personalities, jurisdictions and philosophies yet to be overcome, a major impediment to amalgamation of the two unions (both really want to reunite) has been the CIO's toleration of the Communists.

In the meantime, the meat cleaver is being honed at CIO headquarters. When at last it cracks down at Cleveland, a major era in the history of the American labor movement will have come to its finish. Except for the Communists, hardly anyone will be sorry to see it end.



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Parents of youngsters who must wear glasses and thus run the risk of having a BB or rock put their eye out have some good news from the American Optical Company, which has developed a new type of super-durable eyeglass lens designed to prevent shattering or splintering when struck by flying particles. A test lens, ground to a center thickness of 1/16 of an inch, was struck by a BB at a distance of 35 feet and, although it cracked across its entire surface, it did not shatter or splinter. The company's address is Southbridge, Mass.

Auto Clothes Carrier

The Santay Corporation, 351 N. Crawford Avenue, Chicago 24, has come up with something new in automobile clothes carriers that it believes is the best of such devices yet marketed. Santay's carrier snaps inside a window frame, uses no brackets or screws and requires no holes to be drilled, yet it carries as many as eight garments. The carrier, plus clothes, can be unsnapped in a jiffy and carried into home or hotel.

Corrugated Belt

A new type of conveyor belt, molded with a corrugated surface enabling it to carry cartons or bags on 30 to 40 degree inclines, has been introduced by the Russell Manufacturing Co., Middletown, Conn. The belt, called "Ruff-Ridge," is impregnated with a neoprene solvent cement for moisture resistance and then coated with a layer of neoprene-natural rubber that carries the corrugated design.

Super-Sensitive Altimeter

The American Paulin System, Los Angeles, Calif., has introduced a new "micro-altimeter" for use by surveyors, geolists and field engineers that is said to be the most accurate instrument of this type yet developed. The "micro-altimeter" is graduated in intervals of one foot over a range of 6,000 feet, yet weighs only 4½ pounds and is thus easily portable. The com-

pany declares that the new instrument will cut surveying time as much as nine-tenths. It is later to be supplemented by models carrying a range of 15,000 feet graduated in five-foot intervals, and also a range of 5000 meters, graduated in one-meter intervals.

Electric Embosser

The formal old procedure familiar in city halls and county offices — the hand-embossing of documents — has finally been mechanized. The modern way to do the job, says the Todd Company, 1150 University Drive, Rochester, N. Y., is with their new electric embosser which imprints official seals at the touch of a finger. Judiciously, the embosser has a double locking system with one key for the executive officer and one for the employee.

Pneumatic Block Maker

A new automatic cement block maker has been introduced by Crawford Industries, 1100 E. Second St., Pomona, Calif. The machine pneumatically turns out 8x8x16-inch blocks, a dozen a minute, and, according to the company, assures fully-compacted, even density blocks and bricks. It can, if necessary, be run without an operator.

Non-Glare Rear View Mirror

The Sparton Automotive Division of Sparks-Withington Co., Jackson, Mich., has introduced a polarized rear-view mirror for automobiles which, by cutting down red, yellow, white and blue shades, as well as infra-red and ultraviolet rays, is said to reduce reflected light by 17 per cent. The manufacturer says the non-glare mirror is effective in both daylight and darkness.

Non-Turn Door Handle

The Canadian Automatic Latch Co., 103 Woodycrest Ave., Toronto, has applied the push-button idea in automobile door handles to the more venerable house door knob. The company is marketing a plastic door handle containing a push button in the center. When it is depressed, it releases the latch bolts.

When the door is closed, the latch re-set. The handle can be screwed to the door and will also fit the recess of an old lock.

Trends In Finance and Business

(Continued from page 11)

Manufacturing employees, Cook surpassed his second entry in manufacturing employment by 38 per cent.

Among the east north central states (Illinois, Ohio, Michigan, Indiana and Wisconsin), the figures also showed that Wisconsin's manufacturing strength increased most sharply or by about 230 per cent. Indiana was second with a 210 per cent increase, followed by Illinois (205 per cent), Ohio (200 per cent), and Michigan (190 per cent).

TOMORROW'S MAIL TODAY!

Workers in Chicago's Loop will find a new diversion beginning July 23 when a fleet of mail-carrying helicopters begin flights to and from the roof of the main postoffice building at Van Buren and Canal streets. The helicopter mail service is the second of its kind in the nation (the first began in Los Angeles in October, 1947) and is designed to speed up mail deliveries and pickups in 43 Chicago suburbs, and nearby cities.

The air delivery system will be operated by Helicopter Air Service, Inc., which was awarded a Civil Aeronautics Board route certificate last January. At the outset, the mail will be only shuttled between Chicago's Municipal Airport and the post office; runs to suburban towns will begin later.

The airborne mailcarriers will consist of six Bell Aircraft D-47 helicopters, each equipped with special mail bins for quick pickups and deliveries. Each aircraft will have approximately 400 pounds capacity for mail. They are expected to make the shuttle run between airport and post office in slightly under 10 minutes. The company plans to schedule 18 round-trip shuttle flights on each working day of the week, also three daily flights on three different suburban routes.

The helicopters are expected to be flown a total of about 1,200 miles a day. Helicopter Air Service is authorized to serve towns within a radius of 50 miles of the Chicago Municipal Airport.



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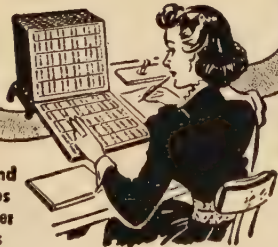
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The Equity Capital Problem

(Continued on page 20)

proportion even compared with depression.

I do not want to give the impression that industry is on an unsound basis, however. In addition to this \$1,000,000,000 of outside equity capital obtained by the sale of common stock, we must not forget the \$12,000,000,000 of plowed back earnings, making a total of \$13,000,000,000 of new equity capital against \$9,000,000,000 of new debt.

But the question remains — why didn't industry sell more stock? Essentially the answer lies in the fact that, due to low interest rates, borrowed capital was inexpensive while the cost of equity capital was high. How is the cost of equity capital measured? Some say it isn't a cost, since dividends aren't guaranteed, but board of directors with a sense of obligation can't subscribe to that view. Preferred stock costs have been comparatively low, four to four and one-half per cent versus two and one-half to three per cent for medium term loans. However, interest is deductible from corporation tax while dividends aren't, so the real comparison is between a four or four and one-half per cent preferred dividend rate, and a net interest cost of less than two per cent — and, good corporations consider preferred dividends sacred.

Comparative Costs

Coming to common stocks, the traditional source of equity capital, the comparative costs are really startling. Some, to be sure, like telephone and chemical stocks are selling for 12 to 15 times annual earnings, and above their book values. This means that these companies can sell their stock on an earnings yield of seven or eight per cent, so they can and do sell stock and convertible debentures or convertible preferred stocks without feeling that they are unjust to present shareholders.

But when we come to the average figures for listed, dividend-paying stocks on the New York Stock Exchange, we get a really startling picture. The average dividend rate on the average market price in 1948

was slightly over seven per cent but nearly two-thirds of earnings were plowed back, so the average earnings yield was about 20 per cent on the market price. This is more than ten times the net cost of corporations of medium term borrowing! Also, in many cases the corporation stock was selling well below book value, and in a great majority of cases far below the replacement costs of the underlying assets. Do you wonder that under those conditions few companies considered it fair to their present stockholders to sell common stock at prevailing low prices and thus dilute the value of the stock now outstanding? The only recourse for most corporations was a heavy plow back of earnings—about 64 per cent in 1948 versus a 25 or 30 per cent prewar average.

Why should industry complain about a shortage of equity capital when it did get \$12,000,000,000 by the comparatively easy method of plowed-back earnings? I believe there are several reasons:

1. Plowing back such a high percentage of earnings is not satisfactory to many:

a. Stockholders object, even though they may be better off. The taxes recipients pay average 22 per cent on dividends. Plowed-back earnings should be reflected in higher prices for the stock, but in recent years this hasn't happened.

b. Politicians and labor economists complain, though unjustly. The only tax saved is the double tax on dividends which should not be in existence.

c. Low dividends keep stock prices down and so postpone the day when industry can do equity financing.

2. The ratio of equity to borrowed capital varies greatly among companies and many feel safe limit of borrowed money has been reached.

3. The probable drop in earnings this year sharply reduces the amount of new capital industry can get from this source, especially if dividends are maintained, as they should be in view

of the low percentages declared during recent years of high earnings.

What about capital needs this year? Earlier surveys indicate that requirements will be off but little from last year. If these surveys prove correct, equity capital will be short. If capital expenditures drop more, as I anticipate they will, the shortage of capital is one of the main reasons for the slump. There is no substitute for business expansion if we are to have an expanding economy and continue to make jobs for the growing labor force. The net addition to the civilian labor force totalled 5,000,000 persons in the two years 1946 and 1947. Providing work for that number was a tremendous job and one for which industry got little credit. About 1,000,000 persons were added to the labor force in 1948 and over the next few years there will be a net addition of over 500,000 annually. The average investment by industry for each present job is \$8,000. Still more is needed to create a new job.

My second proposition is that those who know the facts about stocks don't have the money. Equity capital has historically come from the wealthy and from high-salaried individuals which, incidentally, are not the same. High surtax rates have largely dried up these sources. While total individual income is 2.5 times what it was in 1929, the total of after-tax incomes of over \$25,000 is down sharply! In fact, in many cases large stockholders are having to liquidate to meet taxes. So are foreign holders. But some people do have money and yet don't buy stocks. One important reason is the double tax on dividends which drives large investors into tax exempt securities, the least productive instead of most productive type of investment. A man with a \$50,000 income after exemptions pays 66 per cent of any dividends he receives in taxes. To give such an investor a tax-free yield of two per cent industry must pay six per cent. It is an economic crime that our tax system drives wealthy individuals — those best fitted to take risks — into unproductive and riskless tax exempts — unless they're just stubborn like I am.

Capital gains possibilities should still attract investment but they

don't because of the unfair limit on the tax deductibility of net capital losses. Also, while these people know the facts about stocks, they know many other things which make them fearful of the future of business. Washington seems to delight in unsettling business by threats of excess profits taxes, undistributed earnings taxes, great social security expansion, government-financed competition and dismemberment of the oil and other industries. It would be amusing if it were not so tragic to see the planners now talking about Truman's point 4 and emphasizing the need of encouraging private American investment abroad. Isn't it about time that they gave some thought to encouraging investment in American business!

My third proposition is that those who have the money don't know the facts. Of course, some do know facts — insurance companies, universities, and institutions, but they are variously limited as to the amounts they can put into equity capital.

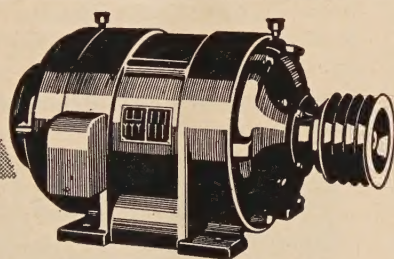
However, those to whom I refer

mainly as having the money today are the millions of individuals — farmers, working men, and others — who have been saving unprecedented amounts and would save more if they had adequate incentives. They naturally are concerned about security. It is proper to invest first in insurance, government bonds, savings accounts. But many have adequate amounts of these rainy day investments, but are filled with uncertainties and prejudices about stocks.

Need Mass Savings

For the good of the individuals, of industry, and of the country as a whole, more of these mass savings should go into venture capital. The individuals need more income and more incentive to save — and a greater stake in free enterprise; industry needs the capital, but it needs even more the better understanding and greater community of interest which should result from stock ownership.

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taking and the advantages of owning a share in American business enterprise have not. Few realize that America was largely built by the risk-takers. Surveys show that few, even among people with investable funds, know how to buy and sell stocks. Still fewer realize that dividend yields are now over six per cent on many sound stocks, or have any appreciation of what present high earnings yields amount to.

Finally, what should we do about it? Considering the last group first, it is obvious that the big job is an educational one in which many must participate. Industry should endeavor to inform its own employes about how to buy securities and the pros and cons of various types of investments. It is unfortunate that adverse results during the depression plus the complications of SEC registration terminated many stock purchase plans in spite of their great merit in tending to improve industrial relations. Consideration should be given to some modified plans to get stock into employe hands, such as the General Electric Company has recently put into effect. The stock exchange and certain of the brokerage houses have been doing an excellent job of public education by means of advertisements, booklets, and investors' forums, but there is still much room for this.

Investment Trusts

One bright spot in the equity capital picture is the growing popularity of investment trusts, which enable a small investor to diversify his investments and have them under some continuing supervision. However, the customary 7½ per cent loading charge, while apparently necessary for selling to small investors, is a rather serious obstacle to considering this an ideal solution to the problem.

Most investment trusts also seem to suffer from attempting to follow fashions — there are apparently certain well-known stocks which every investment trust thinks it must hold, and stocks of more merit which are relatively neglected. As an example of following fashions, many investment trusts seem to follow a policy of holding roughly equal amounts of oils and chemicals, ignoring the fact that the total assets of the listed oils

are about four times those of the listed chemicals. This tends to create a scarcity value for chemical stocks, and is probably one reason for the fact that the chemical stocks are currently selling at more than twice book value and about twelve times last year's earnings; whereas the average oil stock is selling at about 75 percent of book value and between four and five times last year's earnings.

There is certainly room for developing still better methods of reaching the small investor — it is unfortunate that the only one who can now afford to spend much time on small investors is the man who is selling a stock on an unusually large commission, which is in general not the kind of stock the small investor should buy. The country banks are, to my mind, in a key position as to the farmers, many of whom have large sums available for investment. It is unfortunate that SEC regulations prevent the country bankers from getting even a small profit on the sale of stocks, so their natural tendency is to advise their customers to keep the money in the bank or in government bonds.

But what about those who do know? It is obvious that here the big problem is lower and fairer taxes. The tax problem runs through all phases of the equity capital problem. High corporation taxes increase capital needs. They also encourage borrowing rather than the sale of equities. Double taxation of dividends and steeply graduated individual taxes discourage investors. So do the inequities of the capital gains tax — especially the loss provisions. Threats of new taxes are even more discouraging on account of the uncertainty. Taxes should be reduced, and in any case must not be increased. Government spending must be reduced. Ex-president Hoover has shown it can be. We owe him our thanks and we owe it to ourselves to see that his recommendations are largely followed. Threats of new taxes must be ended, and the whole tax system revised to encourage rather than discourage the raising of risk capital. If this is not done, we cannot maintain continued improvement in our standard of living, take care of the growth of our labor force, and keep our country strong and free.

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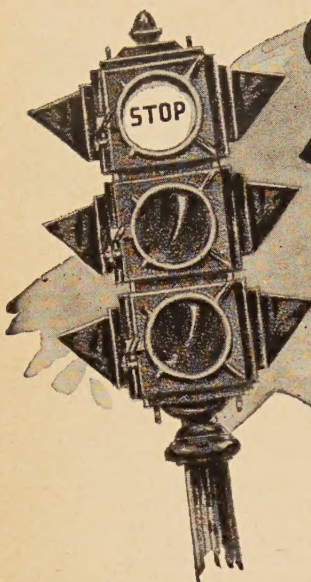
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STOP ME-IF—

Billy walked into a drugstore, laid a nickel on the counter, and asked for an ice-cream cone.

"Cones are eight cents," a clerk told him.

"Then give me a package of chewing gum," Billy said.

"Gum is six cents."

Billy walked away, leaving the nickel on the counter.

"You forgot your nickel," the clerk yelled.

"Keep it — it won't buy anything," Billy replied.

Sister: "He's so romantic. Every time he speaks to me he starts, 'Fair Lady!'"

Brother: "Romantic, my eye! He used to be a streetcar conductor."

"How'd you come out in that fight with your wife the other night?"

"Aw, she came crawling to me on her hands and knees."

"What did she say?"

"Come out from under that bed, you coward!"

A family who moved from town to the suburbs decided they needed a watchdog to guard the house at night. So they bought the largest dog they could find in the kennel of a nearby dealer. Not long afterwards, burglars broke into the house. They were not disturbed at all by the dog who slept throughout the burglary. The head of the house went to the dealer and complained.

"Well," explained the dealer, "what you need now is a little dog to wake up the big dog."

A dowager was watching her bachelor son romping along the beach with a shapely redhead he had invited up from the city over the weekend.

"A wonderful girl!" said the dowager proudly to her companion, a social rival. "Yet, to think that certain gossips say she was once a fan dancer! Why, I'll wager she never waved an ostrich plume in her life!"

"All I know," said the rival sweetly, "is that, when it began to thunder and lightning so terribly yesterday, she ran and hid her head in the sand."

A young lady stalled her car at a traffic light and couldn't get it started. She tried and tried, while behind her an impatient motorist honked his horn steadily. Finally, she got out and walked back.

"I'm awfully sorry, but I can't start my car," she told the driver of the other car pleasantly. "If you'll go and start it for me, I'll stay here and lean on your horn."

What'll you do little girl, when you're as big as your mother?
"Diet!"

Not long ago, an aged convict was released from a French prison, after many years of confinement. A detective, curious to observe the man's reactions to the wonders of modern civilization, took the old codger to see the new automobiles and airplanes, the radio, television and many other present-day marvels.

"What has impressed you most?" the detective finally asked the old ex-convict.

"Women," the man replied.

"Women?" repeated the detective.

"Yes," explained the ancient jail-bird; "when I went to prison women were round. Now they are oblong or flat!"

Attendant (in filling station): "Boo your doctor's in here with a flat tire."

Boss: "Swell! Diagnose the trouble: a puncture wound resulting in prolapse of the perimeter. Prescribe plastic surgery followed by the administration of violent flatulents, and charge him accordingly. That's what he's been doing to me."

The new minister was visiting the household for the first time, and at the moment was praising the Sunday School record of little Myrtle.

"My child," he enthused, "I have been talking to your teacher, and she tells me that if you continue to learn your lessons well you will have a good conduct card for every Sunday in the year!"

"My!" the child replied. "That'll be a whole deck, won't it?"

The radio announcer was proposing "Remember," he said, "this is the last day for this astounding offer."

Professor: "If molecules can be split into atoms and atoms can be broken up into electrons, can electrons be split any farther?"

Student: "Well, you might try mailing some in a package marked 'Fragile'."

"What in the world are you tearing up your den for, Horace?" inquired the sweet little housewife.

"Well," confessed the anxious money-maker, "I hid ten dollars in this desk just about two weeks ago. For an emergency."

"Is that all?" replied the spouse. "I found the cash this morning. The emergency came, C.O.D."

Said one girl to her friend, speaking of her two beaux: "If I could combine their qualities, I'd be the happiest girl in the world. Ronald is gay, debonair, rich, handsome and witty; and Clarence wants to marry me."

